SMALL BUSINESS IN THE ALUMINUM INDUSTRY

THE UNIVERSITY
OF MICHIGAN

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MAIN
READING ROOM

HEARINGS

BEFORE

SUBCOMMITTEE NO. 3

OF THE

SELECT COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

EIGHTY-SIXTH CONGRESS

SECOND SESSION

ON

PROBLEMS OF SMALL BUSINESS IN THE ALUMINUM INDUSTRY

MAY 2, 3, 4, AND 5, 1960

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CONTENTS

STATEMENTS

	Page
Alsco, Inc.:	
Goodman, Saul W., general counsel	108
Harry Sugar, president	94
Aluminum Co. of America, Lewis P. Favorite, vice president	172
Aluminum Extruders Council, Leonard Starr, chairman, facts and statistics committee	46
Aluminum Smelters Research Institute, Carl H. Burton, secretary	12
American Die Casting Institute, Inc., Richard E. Kellers, associate secretary	3
Boone, Daniel, General Motors Corp	152
Burton, Carl H., secretary, Aluminum Smelters Research Institute	12
Cameron, James L., director of supplier relations, Ford Motor Co	186
Chrysler Corp., M. F. Garwood, chief engineer, materials	144
Commerce, Department of, Walter A. Edwards, Deputy Assistant Secretary for Domestic Affairs	109, 117
Domar, Robert A., vice president, Domar U.S. Aluminum Siding Co	83
Edwards, Walter A., Deputy Assistant Secretary of Commerce for Domestic Affairs	109, 117
Favorite, Lewis P., vice president, Aluminum Co. of America	172
Ford Motor Co., James L. Cameron, director of supplier relations	186
Garwood, M. F., chief engineer, materials, Chrysler Corp	144
General Motors Corp.:	
Boone, Daniel	152
Skinner, Sherrod E., executive vice president	152
Goodman, Saul W., general counsel, Alsco, Inc	108
Highland Supply Corp., E. H. Weder	73
Kaiser Aluminum & Chemical Corp., D. A. Rhoades, president	201
Kellers, Richard E., associate secretary, American Die Casting Institute, Inc	3
McConnell, Joseph H., executive vice president and general counsel, Reynolds Metals Co	121
Mighdoll, Manny J., foreign trade and metal dealers divisions, National Association of Waste Material Dealers, Inc	32
National Association of Waste Material Dealers, Inc.:	
Mighdoll, Manny J., foreign trade and metal dealers divisions	32
Wakesberg, Si, secretary, Secondary Metal Institute	38
Reynolds Metals Co., Joseph H. McConnell, executive vice president and general counsel	121
Rhoades, D. A., president, Kaiser Aluminum & Chemical Corp	201
Skinner, Sherrod E., executive vice president, General Motors Corp	152
Starr, Leonard, chairman, facts and statistics committee, Aluminum Extruders Council	46
Sugar, Harry, president, Alsco, Inc	94
Wakesberg, Si, secretary, Secondary Metal Institute, National Association of Waste Material Dealers, Inc	38
Weder, E. H., Highland Supply Corp	73

MATERIAL SUPPLIED FOR THE RECORD

Alsco, Inc., Harry Sugar, president, excerpt from Wall Street Journal printed in early 1960	98
Aluminum Co. of America:	
Anderson, M. M., letter dated April 29, 1960, to Congressman Yates	177
Favorite, Lewis P., vice president, letter dated May 11, 1960, to Congressman Yates	183

Page

Aluminum Smelters Research Institute, Carl H. Burton, Secretary:
- Article entitled "Footnote to the Future" 15
- Table I.—Scrap producing forms 19
- Table II.—Wrought products 19
- Table III.—Aluminum scrap—Exports, imports 20

American Die Casting Institute, Inc., Richard E. Kellers, associate secretary, table entitled "Aluminum die castings: Automotive and all other uses compared, 1950–59, by source of supply" 216

Anderson, M. M., Aluminum Co. of America, letter dated April 29, 1960, to Congressman Yates 177

Burton, Carl H., secretary, Aluminum Smelters Research Institute:
- Article entitled "Footnote to the Future" 15
- Table I.—Scrap producing forms 19
- Table II.—Aluminum scrap receipts 19
- Table III.—Aluminum scrap—Exports, imports 20

Commerce, Department of, Walter A. Edwards, Deputy Assistant Secretary for Domestic Affairs:
- Table I.—Aluminum scrap statistics 112
- Table II.—Aluminum scrap exports by country of destination 112
- Table II.—Aluminum scrap exports by country of destination (revised) 113

Department of Commerce, Bureau of Foreign Commerce bulletin dated February 17, 1960, entitled "Exports of Aluminum Scrap Subject to New Requirement" 114

Development Loan Fund, Hart Perry, Acting Managing Director, letter dated May 3, 1960, to Congressman Yates 214

Edwards, Walter A., Deputy Assistant Secretary of Commerce for Domestic Affairs:
- Table I.—Aluminum scrap statistics 112
- Table II.—Aluminum scrap exports by country of destination 112
- Table II.—Aluminum scrap exports by country of destination (revised) 113

Export-Import Bank of Washington, Samuel C. Waugh, President, letter dated April 29, 1960, with table enclosed, to Congressman Yates 212

Favorite, Lewis P., vice president, Aluminum Co. of America, letter dated May 11, 1960, to Congressman Yates 183

Ford Motor Co., Earl G. Ward, vice president of purchasing, statement 186

General Motors Corp., Sherrod E. Skinner, executive vice president:
- Contract dated November 30, 1959, between General Motors Corp. and Aluminum Co. of America 164
- Photograph of aluminum transport ladle 161
- Photograph of an aluminum transport ladle nearly emptied at a holding furnace in the Chevrolet Aluminum Foundry 162
- Photograph of first load of hot metal from Reynolds Reduction Plant reaches Chevrolet Aluminum Foundry at Massena 163
- Table showing aluminum castings shipped and employment at location shown 169
- Table showing analysis of sales 168

International Cooperation Administration:
- Jameson, Guilford, Deputy Director for Congressional Relations, letter dated June 6, 1960, to Congressman Yates 215
- Saccio, L. J., Acting Director, letter dated April 29, 1960, to Congressman Yates 214

Jameson, Guilford, Deputy Director for Congressional Relations, letter dated June 6, 1960, to Congressman Yates 215

Kaiser Aluminum & Chemical Corp., Thomas K. McCarthy, vice president and counsel, letter dated April 29, 1960, to Congressman Yates 209

Kellers, Richard E., associate secretary, American Die Casting Institute, Inc., table entitled "Aluminum die castings: Automotive and all other uses compared, 1950–59, by source of supply" 216

List of Reynolds Metals Co. corporate acquisitions or investments since January 1, 1955 141

Listing of mergers and acquisitions by industry group and asset size of acquiring concern:
- 1955 189
- 1956 191
- 1957 193
- 1958 195
- 1959 197

Page
McCarthy, Thomas K., vice president and counsel, Kaiser Aluminum & Chemical Corp., letter dated April 29, 1960, to Congressman Yates 209
Perry, Hart, Acting Managing Director, Development Loan Fund, letter dated May 3, 1960, to Congressman Yates 214
Reynolds Metals Co. list of corporate acquisitions or investments since January 1, 1955 141
Saccio, L. J., Acting Director, International Cooperation Administration, letter dated April 29, 1960, to Congressman Yates 214
Skinner, Sherrod E., executive vice president, General Motors Corp.:
Contract dated November 30, 1959, between General Motors Corp. and Aluminum Co. of America 164
Photograph of aluminum transport ladle 161
Photograph of an aluminum transport ladle nearly emptied at a holding furnace in the Chevrolet Aluminum Foundry 162
Photograph of first load of hot metal from Reynolds Reduction Plant reaches Chevrolet Aluminum Foundry at Massena 163
Table showing aluminum castings shipped and employment at location shown 169
Table showing analysis of sales 168
Sugar, Harry, president, Alsco, Inc., excerpt from Wall Street Journal printed in early 1960 98
Ward, Earl G., vice president of purchasing, Ford Motor Co., statement 186
Waugh, Samuel C., President, Export-Import Bank of Washington, letter dated April 29, 1960, with table enclosed, to Congressman Yates 212

SMALL BUSINESS IN THE ALUMINUM INDUSTRY

MONDAY, MAY 2, 1960

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE NO. 3, ON FOREIGN TRADE AND
FOREIGN AID OF THE SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:20 a.m., in room 1301, New House Office Building, Hon. Sidney H. Yates (chairman of the subcommittee) presiding.

Present: Representatives Yates, Multer, Moore, and Derwinski.

Also present: Katherine C. Blackburn, research analyst; Marie M. Stewart, clerk; and Victor P. Dalmas, adviser to minority members.

PROCEEDINGS

Mr. YATES. The hearing will come to order.

When hearings were held by this subcommittee in 1955, the first hearings that the subcommittee undertook, there was a severe shortage of aluminum, and at that time the industry was growing rapidly. There were substantial exports of scrap and the Government stockpile requirements of primary metal were very substantial.

In 1957, when our committee again held hearings, we found an abundant supply of aluminum. Most people in the industry considered it an overabundant supply of aluminum, but there were different problems which arose in the industry.

Today we see evidence that the industry has been successful in expanding its market. I remember that in 1957 we commented on the fact that in times of overabundance the plight of the small fabricator and the small enterprise in the aluminum industry was going to be acute because the market was going to be gone after by the primary producers as well, who had their items to sell.

That has been shown to have occurred, and I think that underlies some of the problems which this committee will hear in connection with our current hearings.

Today consumption of aluminum in the United States, as well as throughout the world, has reached a record amount. The expansion will continue, this committee believes. We think the aluminum industry is a very great growth industry, and associated with this industry are the problems of the small business people with whom we are dealing constantly in whose activities we are interested.

It is important, we feel, that our hearings continue for the benefit not only of the small people, but for our entire economy.

There have been mergers, there have been consolidations over the past years which have been significant in this industry because for the

past 25 years our Government has been attempting to generate competition and increase the source of supply in this industry.

The hot-metal contracts which we investigated, to some extent, a few years ago have been increased and impose additional problems. We think we ought to explore the hot-metal contracts a little further.

Our subcommittee continues to receive complaints about a price squeeze, and the complaints allege that the problems that confront the independent fabricator today are very extensive. This part of the hearings, of course, entails complex pricing problems.

I don't know whether we can go into those questions. But we are going to listen to the testimony of the various segments of the industry and try to come to some conclusion.

Another complaint that we have received relates to the increased export of aluminum scrap. We want to touch on that, too, in the course of our hearings. We want to acknowledge with gratitude the cooperation that we have received not only from the small business members of the aluminum industry, but from the primary producers and from the large fabricators, as well.

We want to thank the representatives of industry who have worked with our subcommittee in preparing these hearings and who have supplied helpful testimony. There has been made available a list of the witnesses whom we will hear. Among the witnesses from the small business segment of our economy who have asked to be heard are those in the siding business, and it is anticipated that we will hear one or two witnesses, possibly more, from people who are in that part of the industry.

Is there a member of the committee who wants to say something at this time?

Mr. MULTER. Mr. Chairman, you have made a very fine and clear statement of a very troublesome problem, and there is nothing that I can add at this time.

Mr. YATES. Mr. Derwinski.

Mr. DERWINSKI. Nothing at this time.

Mr. YATES. Mr. Dalmas.

Mr. DALMAS. Nothing, thank you.

Mr. YATES. I want to take a moment at this time to say that attention should be called to the fact that the very able counsel to this committee is not with us for this hearing. Unfortunately he is in the hospital with a leg injury but fortunately he is on the road to improvement.

I don't think that the hearings would be going along as well as they are going without the excellent preparation and the ability of our counsel, Mr. Maness. We all want him to get back here as promptly as possible.

Mr. MULTER. Mr. Chairman, I join in your remarks in commendation of Mr. Maness and also join you in wishing him a speedy recovery and a fast return to our work.

Mr. YATES. Thank you. I am sure everyone of the committee does share our view.

Mr. DALMAS. Mr. Chairman, may I join in what has been said. As a member of the staff I went out to see Mr. Maness yesterday and I can't tell you how regretful he was that he was not able to be here.

Mr. YATES. I am sure he will be glad to be back. I am sure this is shared by Mr. Derwinski.

Mr. DERWINSKI. Yes, Mr. Chairman.

Mr. YATES. Our first witness will be Mr. Richard E. Kellers, who is associate secretary of the American Die Casting Institute.

Will you come forward, Mr. Kellers. We understand that Mr. Laine, who is the secretary of the Die Casting Institute and who testified last time, is out of the country, and that you are standing in for him.

Mr. KELLERS. That is true, sir.

Mr. YATES. We will be very pleased to hear your testimony.

TESTIMONY OF RICHARD E. KELLERS, ASSOCIATE SECRETARY, AMERICAN DIE CASTING INSTITUTE, INC.

Mr. KELLERS. I have a very brief statement I would like to read.

My name is Richard E. Kellers, I am associate secretary of the American Die Casting Institute, the trade association of the independent custom producers of die castings. For the more than 100 of our members who produce aluminum die castings, I want to thank the committee for its continuing interest in our problems.

In March 1958, Mr. David Laine, the executive secretary of the institute testified before this committee regarding the contracts between Reynolds Metals Co. and General Motors and Ford.

The gist of that testimony was that these hot metal contracts embodied complex formulas which resulted in unfair and discriminatory prices for aluminum casting alloy. This alloy when sold hot by Reynolds to Ford and General Motors is priced lower than when it is sold cold, in pigs or ingots, to independent, custom die casters. The reduction in price which Reynolds gives Ford and General Motors is six to eight times what Reynolds saves by eliminating the pigging operation as testimony in 1958 brought out.

The effect of this price discrimination has been to encourage vast expansion of the captive diecasting facilities of Ford and General Motors with a resultant large increase in the aluminum die castings they make for themselves and a severe and major drop in the tonnage of aluminum die castings which they buy from independent custom die casters.

While a trend in this direction was foreseeable early in 1958, the actuality is a shock. The automotive aluminum die casting market has become a captive market—a market rapidly diminishing for the independent custom die caster. That this change has been so precipitate—coinciding with the increased deliveries of hot metal at inside prices—now reinforces our 1958 testimony.

The following data may clarify the impact of this discriminatory raw material price on the volume of the independent custom diecaster:

I am submitting with my statement for your consideration a table showing the extensive use of aluminum die castings by the automotive industry in the years 1955 through 1959. The tonnage of aluminum die castings purchased from independent die casters is shown for each of these years in comparison with the tonnage produced in captive die casting facilities. It can be seen that the "buy" versus "make" picture has changed drastically since 1955.

In that year, the automotive industry purchased 70.9 percent of its aluminum die casting needs and produced 29.1 percent.

Last year, in 1959, the automotive industry purchased only 38.4 percent of its aluminum die castings and made 61.2 percent.

This complete reversal of figures should clarify the impact of the discriminatory hot metal raw material price on the volume of aluminum die casting business available to independent die casters.

Since the automotive market represents some 45 percent of the total market for aluminum die castings, the impact of the trend pictured on the independent die caster is of major magnitude. That this foreclosing of our principal market is based on a discriminatory and unfair price preference is a serious matter and one which we believe this committee should again examine, since relief under present legislation through the Department of Justice or Federal Trade Commission is apparently unobtainable.

In April 1958, in line with the recommendation of this committee we called this matter to the attention of the Department of Justice. After a year of investigation and study the Antitrust Division of Justice concluded that the questions involved were matters for the Federal Trade Commission to act upon and, over our protest, referred the matter to that agency. The Federal Trade Commission took jurisdiction on May 29, 1959, and in February 1960, were ready to close the case without action.

Since, in our opinion, the testimony before this committee in the 1957–58 hearings clearly indicated preferential pricing to exist we are forced to conclude that existing legislation is inadequate.

The record of what has happened is eloquent evidence of this.

In the absence of relief, the future of the independent custom die caster is a most discouraging one. We beg your assistance in providing remedial legislation.

Mr. YATES. Thank you for your statement, Mr. Kellers. You indicate that you have more than 100 members who produce aluminum die casting.

The question comes to my mind, as I review the chart which was placed in your statement which indicates the lost business from custom producers, what has happened to those members? Have any of them gone out of business? Have any of them sold out?

Mr. KELLERS. No, sir. To the best of my knowledge, none of them has had to sell out.

Mr. YATES. Can you tell us what has happened to your membership? I can see that this chart shows the fact that there has been a transfer of die castings bought from independent fabricators to so-called captive fabricators. Have your members taken up or moved to other industries?

Mr. KELLERS. No, I wouldn't say——

Mr. YATES. In order to protect their business?

Mr. KELLERS. I wouldn't say that, sir. The same producers who were producing aluminum die castings during this 1955 period are still producing today.

In many cases they have had to readjust their business to the die casting of other metals to compensate for their loss of aluminum die casting business.

Mr. YATES. Your point is that they are moving out of the aluminum casting business and going into the casting of other——

Mr. KELLERS. They are having to go into other metals to compensate for that loss in aluminum business.

Mr. YATES. If, as you allege, the difficulty is in great measure brought about by the hot metal contract, it looks like your difficulties are going to be compounded with the new hot metal contract that is in the offing, or which has been signed.

Mr. KELLERS. I would think so. We have no actual details of the latest aluminum contract, but we understand that the basis of arriving at the price is quite different from the original Reynolds Metals-GM-Ford contract.

We also understand that the question of specified tonnage of metal is quite different. But this is just hearsay. We have no actual details of that contract.

Mr. YATES. Any questions, Mr. Multer?

Mr. Reporter, the statement contains a chart which was not testified to in detail by the witness. I think the chart should be made a part of this statement.

(The tabulation referred to in Mr. Kellers' statement is as follows:)

Year	Passenger-car production	Automotive aluminum die castings		Total automotive use (pounds)	Percent custom (bought)	Percent captive (made)
		Purchased from custom die casters (pounds)	Produced in captive plants (pounds)			
1955	7,920,000	117,000,000	48,000,000	165,000,000	70.9	29.1
1956	5,816,000	93,000,000	63,000,000	156,000,000	59.7	40.3
1957	6,115,000	115,000,000	70,000,000	185,000,000	62.0	38.0
1958	4,241,000	58,500,000	64,400,000	122,900,000	47.6	52.4
1959	5,594,000	66,000,000	104,000,000	170,000,000	38.4	61.2

Mr. KELLERS. Apropos of that chart, I might point out one thing that I believe would be of interest to the committee. The other metal principally used in die casting is zinc, and if you were to compare the zinc die casting production over the same period of time covered for the aluminum die casting production in the chart, you would see quite a different picture.

Here we have no special price consideration such as the hot metal contract poses in the aluminum industry. In 1955, when 521,000 tons of automotive zinc die castings were used, the independent die casters produced 62.8 percent, and 37.2 percent were produced in captive automotive facilities.

In 1959, when fewer automobiles were turned out, 350,000 tons of zinc die castings were used, of which 62.6 percent were still purchased and 37.4 percent were produced by the car makers, essentially the same percentages that existed in 1955.

We have every reason to believe that this is what the picture would look like for aluminum die castings if metal were not available to the captive die casters at discriminatory prices.

We think that this is quite a revealing comparison. In the absence of anything of the type of a hot metal contract, if we are left to our own abilities, we can more than hold our own; but where we have a discriminatory price existing, we are just not in a position to compete for that automotive business.

Mr. YATES. That is understandable.

Mr. MULTER. Mr. Chairman, I think we ought to have the definition of "captive plants." In some industries a captive plant would be a plant that is wholly owned by a manufacturer. In other industries it may be a plant which has an exclusive contract with a manufacturer and yet the plant is independently owned. It is owned by some interest other than the same interest that owns the manufacturing company.

What kind of captive plants are we concerned with here?

Mr. KELLERS. In our terminology, a captive plant is a company maintaining its own die casting facility, wholly owned die casting facility, for the production of die castings for use in its own products.

Mr. MULTER. Are there any contracts that you know of between Ford and Chrysler and General Motors with any of the big aluminum companies as a result of which, or under which, they guarantee to supply the requirements of these automobile manufacturers as exclusive——

Mr. KELLERS. You mean other than the——

Mr. MULTER. Are there any so-called exclusive or first-call contracts?

Mr. KELLERS. I am not aware of any, sir.

Mr. MULTER. Can you give us some explanation; referring to your chart (see p. 5), we find that in 1955 and 1956, the custom die casters' supply drops off about 24 million pounds, and there is an increase in captive plants of approximately 15 million pounds.

Now, when we get down to 1958 and 1959, there is an increase in the custom die casters from the year 1958 to 1959 of 7½ percent.

Mr. KELLERS. Yes.

Mr. MULTER. While the captive plants increase 66⅔ percent from 1958 to 1959.

Mr. KELLERS. Yes, sir.

Mr. MULTER. What is the reason for that?

Mr. KELLERS. I would say that that is the period when the Reynolds Metals contracts were at their peak, or beginning to reach their peak.

Mr. MULTER. 1957 to 1958, custom die casters lost almost 50 percent of the business, from 1957 to 1958, while there again there is a dropoff in the captive plants, but only of less than 10 percent.

What accounts for that?

Mr. KELLERS. I don't know what would account for that difference, except that it is tied in with the nature of the applications. The nature of the aluminum die casting applications changes from model year to model year, and we would have to go back and reexamine the extent of application in those years to answer that question, sir.

Mr. MULTER. You said that the Federal Trade Commission in February of 1960 was ready to close the case without action.

Mr. KELLERS. Yes, sir.

Mr. MULTER. What is the current situation there, if you know? Have they closed it or are they still pursuing it? Is the case open, or what?

Mr. KELLERS. The last we had on that was on February 4; we were notified that if information which was requested was not received by a given date, that their files would be closed.

Mr. MULTER. Information they were seeking from you?

Mr. KELLERS. That is right, and we subsequently gave them the information they were seeking by the date they requested it, and we

have had no further contact with the Federal Trade Commission on this matter.

Mr. MULTER. Have you made any further inquiries since you supplied the information?

Mr. KELLERS. No, sir.

Mr. MULTER. What was the date you supplied the information?

Mr. KELLERS. We supplied the information on February 25.

Mr. MULTER. Don't you think your statement then is unfair when you say the Federal Trade Commission took jurisdiction on May 29, 1959, and on February 1960 were ready to close the case without action?

They were ready to close the case without action only if you failed to submit some data.

Mr. KELLERS. It is true, but we felt that prior to that time all of the data that we were able to furnish was available to the Federal Trade Commission through the information which had been developed originally for the Department of Justice and the information that had been developed through this committee.

We so told the Federal Trade Commission, and we felt that the information pertinent to this case had already been supplied to them in those other forms, and we felt that the burden was not on us from this point on to provide further information.

Mr. MULTER. Yet, when they asked for the additional information, you didn't say that to them. You did supply them with the additional information.

Mr. KELLERS. We supplied them with what additional information we could, sir.

Mr. MULTER. Since you supplied that information to them on February 25, 1960, have you made any further inquiry at the Federal Trade Commission to find out what they are doing in the matter?

Mr. KELLERS. No, sir; we have not.

Mr. MULTER. Mr. Chairman, I think it would be appropriate at a later time to ask the Federal Trade Commission to advise us as to the present status of the matter.

Thank you, Mr. Chairman.

Mr. YATES. Mr. Derwinski.

Mr. DERWINSKI. Just one question, sir.

Do you, by any chance, have any estimates as to what your figures in 1960 might show? Do you have any idea whatsoever as to what percentage your custom diecasters will receive in 1960 as compared to 38.4 percent that they produced in 1959?

Mr. KELLERS. I am afraid that at this time it would be almost impossible for us to arrive at such a figure.

Mr. DERWINSKI. You never attempted to poll your members to at least ascertain the run in 1960?

Mr. KELLERS. No, sir; we have not.

Mr. DERWINSKI. Just out of curiosity, you mention the fact that your members who produce aluminum diecastings have felt it necessary to enter other fields to compensate themselves for the loss of volume in the automotive industry. To what degree have they been successful?

Mr. KELLERS. I might clarify that slightly. To make up for the loss of automotive aluminum diecasting business, they have had to go to the production of diecastings of other metals and aluminum die-

castings for other industries. I am not in a position to tell you what the relative volume of those producers has been over this same period of time, but we feel that the percentage figures really tell the story of the direct loss of custom-produced aluminum diecastings.

Mr. DERWINSKI. Wouldn't your figures be more complete if they would show us the ability or lack of ability of the aluminum diecasters to diversify themselves?

Mr. KELLERS. It would be possible for us to get such information for the committee, and we would be glad to attempt to do so.

Mr. DERWINSKI. Mr. Chairman, I think it would be interesting for us to know as these aluminum diecasters have found as volume decreases in the automotive industry, to what degree they have been able to transfer their production to other fields.

Mr. YATES. Does he have those figures?

Mr. DERWINSKI. No, he doesn't. I think it would be interesting for the committee to know, for example, comparing 1955 to 1959, what the total volume of production was of the aluminum diecasters, comparing for, say, that 4-year period, to give us an idea as to the overall effect of the transition in the automotive industry from your industry, as a whole.

Mr. KELLERS. As I say, sir, I wouldn't have that information with me, but I will be glad to obtain it and submit it in a further statement for the committee.

Mr. YATES. It would be interesting. We don't want to unduly burden you, but if it is readily available by a questionnaire of your members or through some source of that kind, it would be of interest to the committee to show what happens in the transition of the industry.

Mr. KELLERS. We will certainly make every effort to get that information.

Mr. DERWINSKI. Thank you.

(This information appears on p. 216.)

Mr. YATES. Before I call on Mr. Dalmas, I would like to know the source for these figures that are shown in this chart.

Mr. KELLERS. These figures are based largely on Department of Commerce figures.

Mr. YATES. Based largely upon them?

Mr. KELLERS. Department of Commerce.

Mr. YATES. Are there other sources than the Department of Commerce?

Mr. KELLERS. We know, for example, the production of our own member companies, and using that figure, an actual, known figure of our own member companies plus information available to us through the Department of Commerce, we are able to arrive at these figures.

Mr. DERWINSKI. Mr. Chairman, one last question. You state in your opening paragraph that you have more than 100 members who produce aluminum diecastings.

Mr. KELLERS. Yes, sir.

Mr. DERWINSKI. What percentage do your members comprise of the entire productive group producing aluminum diecastings?

Mr. KELLERS. I would say that our member companies account for somewhere between 75 and 80 percent of all of the custom-produced aluminum diecastings in this country.

Mr. DERWINSKI. Now, these figures that you give us then, this is for the total, you are speaking now of the total automotive industry,

and the percentage that you show as being custom diecasters would include your members, as well?

Mr. KELLERS. That is true, sir.

Mr. DERWINSKI. Thank you.

Mr. YATES. It raises a question in my mind, Mr. Kellers.

Are any of your members divisions of other corporations, larger corporations?

Mr. KELLERS. We have several members who are divisions of larger corporations; yes, sir.

Mr. YATES. How do you draw a distinction between them, if you do draw such a distinction, between such members in defining them as custom producers and a division of General Motors?

General Motors, technically, is not a captive plant of any of the aluminum producers, I think; isn't that so?

Mr. KELLERS. That is right. In our terminology, any company who sells over 50 percent of its diecasting output for use in products of other manufacturers is a custom diecasting producer.

Mr. MULTER. Does that mean that Reynolds is selling more than 50 percent of its aluminum to Ford?

Mr. KELLERS. No, sir.

Mr. MULTER. Or to General Motors?

Mr. KELLERS. I am speaking of custom diecasters. Reynolds is not a diecaster.

Mr. MULTER. Then precisely what is your complaint against Reynolds and Alcoa and Kaiser?

Mr. KELLERS. Our complaint against Reynolds, General Motors, and Ford is that the price that they make aluminum available for under those contracts is a discriminatory price not available to our member companies.

Mr. YATES. All wrapped up in the cost of pigging?

Mr. KELLERS. That is right, sir.

Mr. YATES. The so-called cost of pigging?

Mr. KELLERS. That is right, sir.

Mr. MULTER. Taking all of the antitrust laws into account and the Clayton Act and the Robinson-Patman Act, why isn't there sufficient legislation under which you could get relief? I notice that you do suggest we need additional legislation.

Now, what form should that legislation take?

Mr. KELLERS. Well, we are not in a position, sir, to suggest the actual legislation. We felt that following the last hearings of this committee we had proved the discrimination of price that exists, and we felt that the recommendations made by this committee and the request that we addressed to the Department of Justice would bring us the type of relief we were seeking.

But over a period of 2 years we have been unsuccessful in our contacts with either the Department of Justice or the Federal Trade Commission to get any recognition for this discriminatory pricing of aluminum.

Mr. MULTER. We are sitting here as legislators now and we are looking for the information that can guide us in legislating. I don't know whether any of the other members of the committee have had the experience, but I have not had the experience in the operation of an aluminum plant, and, frankly, I don't know just what we could

do legislatively, and I would like to have your guidance and your help, if you can give it to us.

If the Robinson-Patman Act covers, then you don't need any more legislation. If it doesn't, if there is a loophole there, or if there is a loophole somewhere in one of the other statutes, then point it out to us, and we will see what we can do with it, if we decide there must be legislation.

But at this moment I frankly don't know what kind of legislation I could introduce, or that this committee could recommend to be introduced and passed, that would be of any help to you.

Mr. KELLERS. Sir, we believe that the Robinson-Patman Act does cover this situation.

Mr. MULTER. It does.

Mr. KELLERS. But we have been unsuccessful with either the Department of Justice or the Federal Trade Commission to get recognition of that fact.

Mr. MULTER. Then if what you say is so, I think the question that faces this committee is what pressures the Congress can place upon the administration——

Mr. KELLERS. Yes, sir.

Mr. MULTER. To see that the law is properly enforced.

Mr. KELLERS. Yes, sir.

Mr. MULTER. I am not concluding now that there is any improper enforcement. It would be unfair to do that without hearing from the agencies charged with enforcement of the law.

But if what you say is correct, then we can ignore your suggestion about providing remedial legislation.

Mr. KELLERS. Yes, sir.

Mr. MULTER. And go to work on the agencies?

Mr. KELLERS. That is true, sir.

Mr. MULTER. Thank you.

Thank you, Mr. Chairman.

Mr. YATES. Mr. Dalmas.

Mr. DALMAS. Thank you, Mr. Chairman.

Mr. Kellers, how much of this change, referring to your table on page 5, do you attribute to hot metal contracts; that is, change between the production by your members and by captive plants?

Mr. KELLERS. Well, it would be very difficult, sir, to pin it down percentagewise as to just what percentage of that was hot metal, but we think that that reversal of trend is largely due to the hot metal contracts.

We know that there are other aluminum die castings being produced outside of the area of these specific hot metal contracts by captive die casting producers, but we feel that this trend is largely the result of the Reynolds-General Motors-Ford contracts.

Mr. DALMAS. Do you include in that, Mr. Kellers, the acquisition of a plant by one of the major automobile companies? Is that included in your figures or not?

Mr. KELLERS. Oh, yes, sir; this is total. This is not just the so-called hot metal——

Mr. DALMAS. The papers tell that Chrysler entered into some sort of an arrangement with Alcan for what amounts to a captive producing plant. Are those figures in here?

Mr. KELLERS. Those figures would be included in this table.

Mr. DALMAS. I wonder if it would be possible, in order, Mr. Chairman, to get a little more accurate picture of what we are talking about, if Mr. Kellers' organization could give us a breakdown on these figures.

Mr. YATES. What kind of a breakdown?

Mr. DALMAS. Between the hot metal and losses for other reasons.

Mr. YATES. Is that possible?

Mr. KELLERS. I don't know whether it would be possible for us to get the actual tonnage figures developed in the hot metal contracts. I would have to look into that, sir. I don't know whether that information would be available.

Mr. YATES. If it is available, the committee would appreciate your furnishing it to us.

Mr. DALMAS. Mr. Kellers, how many of the primary and secondary producers are diecasters?

Mr. KELLERS. Are diecasters?

Mr. DALMAS. Yes.

Mr. KELLERS. The Aluminum Co. of America operates a diecasting division, what we would term a "custom" or "job shop" diecasting business.

Mr. DALMAS. Are there others in the primary or secondary fields?

Mr. KELLERS. No, sir; that is the only one that I know of.

Mr. DALMAS. And I believe you testified last time they are members of your association?

Mr. KELLERS. That is true, sir. They still are.

Mr. DALMAS. Mr. Chairman, I don't believe I have anything further.

Mr. MULTER. Mr. Chairman, if my recollection serves me correctly, during the course of the last hearings, I think there were complaints that the custom die casters were not able to get as much of the hot metal as they could use. Am I right about that?

Mr. YATES. The die casters had no arrangements for the hot metal.

Mr. KELLERS. We still have no arrangements for the hot metal.

Mr. MULTER. Let me put it this way: Wasn't there a complaint during the last hearings that the die casters couldn't get as much of the raw material as they could use?

Mr. KELLERS. I believe at the time of the last hearings—that was the 1957–58 period—I don't believe that there was a shortage at that time, sir.

Mr. YATES. No. There was an overabundance of metal at that time.

Mr. KELLERS. That is right.

Mr. MULTER. What is the situation today? Can you get all the metal you need today?

Mr. KELLERS. I think it is in very good supply, sir.

Mr. MULTER. You are addressing yourself primarily, then, to the price discrimination, at least your association is?

Mr. KELLERS. Completely, sir, to the price discrimination.

Mr. YATES. Thank you, Mr. Kellers.

Mr. KELLERS. You are welcome.

Mr. YATES. Mr. Burton.

Gentlemen of the committee, this is Mr. Carl Burton, who is secretary of the Aluminum Smelters Research Institute, and who has testified before this committee before.

We are glad to have you back, Mr. Burton, and we will be pleased to hear from you.

TESTIMONY OF CARL H. BURTON, SECRETARY, ALUMINUM SMELTERS RESEARCH INSTITUTE

Mr. BURTON. Thank you very much, Mr. Chairman. It is a pleasure to come to Washington to see Chicagoans.

Mr. Chairman and members of the committee, while the record of previous sessions of this subcommittee over the years bears numerous entries as to the qualification of this witness, for the benefit of those members of the committee who may have joined us since our last appearance in March 1958, may I say that I am Carl H. Burton, 20 North Wacker Drive, Chicago, and that I am secretary of Aluminum Smelters Research Institute of the same address; Aluminum Smelters Research Institute being a trade association of aluminum smelters, established in 1929, the members of which account for about 75 percent of the production of the entire aluminum smelting industry.

The major customers of the smelting industry are the 3,500-odd domestic foundries which cast aluminum. These foundry customers range from the very largest to the very smallest; they are both captive and independent.

Based on figures from the Bureau of Mines and Census Bureau, in 1959 smelters shipment of casting alloys to those foundry customers equaled 72 percent of the total weight of aluminum casting produced. Casting alloys comprised 89 percent of the total shipments of Aluminum Smelters Research Institute members and 87 percent of total shipments of the smelting industry.

Due to the hot metal deals, which had their initial impact in 1959 (probably accounting for more than 100 million pounds in that year), the full impact of which will first be felt in 1960; it is to be expected that the ratio of smelters casting alloys to total aluminum castings produced will enter a declining phase which will endure for some years, until the flow of scrap begins its inevitable rapid climb.

Thereafter, the trend of the ratio should again be reversed toward the ultimate point, sometime in the fairly remote future, at which practically all aluminum castings may be produced from so-called secondary alloys, derived from scrap—just as is the case with copper base castings today.

It is those next few years which are the critical years for the independent smelting industry, and for the independent foundry industry as well. If they are to survive and remain a potent competitive force, they must be freed from the artificial shortening of their limited raw materials supply through the excessive exports of aluminum scrap and

released from the shadow of dominance by integrated primary producers, dominance which can most effectively be exercised by producers through their use of the scrap market as a vehicle for extending concealed discounts on sales of mill shapes or as ancillary to their international dealings with their affiliates or correspondents.

I might add here that the very prevalent toll or conversion deal offers a lovely channel through which to extend those discounts and a most convenient avenue for the discounting of primary aluminum in the world market even below the quoted market price.

Resuming my prepared statement, with respect to scrap supply, which constitutes the raw material for smelters, it is necessary to understand (1) that the scrap supply has no relationship to primary aluminum ingot capacity or to primary ingot production.

As long as aluminum remains in ingot form it is sterile, insofar as scrap generation is concerned. New scrap can be keyed only to the shipments of wrought mill forms and castings to fabricators for further manufacture.

(2) That scrap is not produced voluntarily as a wanted end product, such as is ore from a mine, and that, therefore, demand will not appreciably increase the supply as would generally be the case with other products or materials.

(3) That the various mill shapes and cast forms do not all produce the same ratio of scrap. Sheet, plate, strip, forgings, and sand castings are considered as high scrap items. Foil, wire, extrusions, permanent mold and die castings give lower ratios generally.

(4) That the ratio of shipments of any single form to total shipments does not remain static.

The attached table I is designed to show the changing ratios in simplified form—as percentages of totals.

In brief, section A of this table shows that high scrap-producing items shipped constituted 74.6 percent of total shipments in 1950, whereas this ratio had deteriorated to 45.6 percent in 1959. Sections B and C of the table show the trends of shipments of the various scrap-producing forms which make up the total.

From the summary—section A of table I—the growing proportion of low scrap items and the filling proportion of high scrap items is quite apparent. As will be noted, this trend has been persistent and will probably continue as more and more fabricators purchase raw materials more nearly to the shape desired (extrusions and die castings for example), and as sheet or strip sizes are adapted more closely to final shearing requirements.

Manufacturing methods are changing, products are changing, as, for example, the lesser number of aircraft being built requires less sheet and produces less scrap. These changes are inevitable and are reflected in table I.

We have, therefore, a declining ratio of new scrap generation calculated against shipments of scrap-producing forms. This ratio has declined to about 18 percent from its level of 21 to 22 percent which held in 1951–53. Growth of the total volume of new scrap must come

from the expanding uses of aluminum reflected in increased shipments of mill shapes and castings, and probably it will not be at a comparable rate.

Old scrap, the product of obsolescence and discarding of items of aluminum produced in previous years, must await the passage of time (10 to 50 or more years after original production).

Applications in automotive uses might be considered as providing that obsolescent scrap which may reach the market, as such, in greatest volume, in the shortest period of time (estimated at 10 years); while any aluminum used in construction and architectural applications will probably require 30 to 50 years or more before its return as scrap.

Table II appended hereto shows relative growth of new and old scrap, 1950 through 1959. Imports are included in "Receipts."

It will be noted that the growth of old scrap tonnagewise has been quite slow, reflecting the moderate applications of aluminum in the years prior to, and immediately after, World War II.

The rapidly expanding uses of aluminum in the more recent years have not yet reached the state of obsolescence to any appreciable extent. Material growth of this type of scrap cannot, for some years hence, be expected to reflect the heavy applications of the recent past and the immediate future.

It is informative to compare the growth rate of total scrap (which was 74.5 percent, table II, with the growth in shipments of scrap-producing forms; these were about 1,900 million pounds in 1950, and 4,117 million pounds in 1959. Shipments thereby enjoyed an increase of 116.6 percent.

This clearly establishes the diminishing ratio of scrap to shapes put into process, and shows graphically that increases in total scrap supply do not coincide with the growth of either production or consumption.

I would like to make an addition here to point out that our contention regarding scrap supply and its growth relationships to casting growth was confirmed by a study made by the Kaiser Aluminum & Chemical Co., dated February 1959, and by an article derived therefrom and published in the January-February issue, that is, January-February of 1960, issue of Kaiser Aluminum News.

I refer to an article entitled "Footnote to the Future," from which I would like to quote, and I will then submit the document to the committee for the record.

Total aluminum castings are forecast to increase 215 percent between 1957 and 1965. Secondary metal available for castings is forecast to increase only 110 percent during the same period. More primary aluminum will be required to make up the difference.

I have a photostat of this for the record.

Mr. YATES. It may be received.

(The photostatic copy of article referred to is as follows:)

FOOTNOTE TO THE FUTURE

• Historically, secondary metal has played an important role in industries depending on ingot, but, as was pointed out earlier, primary metal has played an increasingly larger part since World War II. As late as 1957, secondary metal was able to supply 60 per cent of the total aluminum casting requirements, with primary and molten metal making up the difference.

However, Kaiser Aluminum market analysis forecasts that *by 1965 this relationship will be reversed!*

Total aluminum castings are forecast to increase 215 per cent between 1957 and 1965; secondary metal available for castings is forecast to increase only 110 per cent during the same period. More primary aluminum will be required to make up the difference.

Because of the more uniform analysis and higher quality of primary metal, quality-conscious foundry operators will use an increasing amount of primary metal for at least a portion of their requirements. Having an established source of primary supply will pay off in terms of high quality in the foundries' end products.

The chart appearing elsewhere on this page, "*Secondary Aluminum Supply Compared to Aluminum Castings, 1954 to 1970*" graphically depicts the change.

In addition to the supply and demand relationship, which strongly favors the increased use of primary metals in the casting market, there will continue to operate in its favor the characteristics that have helped to build its share-of-market since World War II.

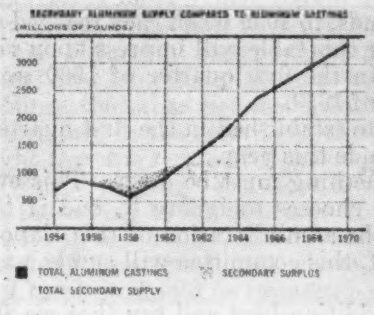
Compared to secondary metal: *Primary metal* offers uniform composition with low impurity levels.

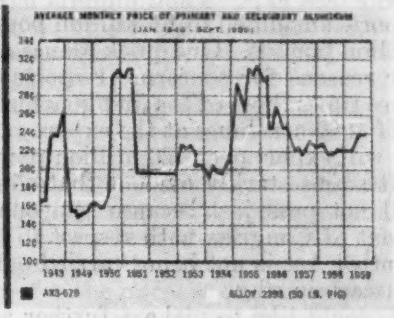
Primary metal offers a guaranteed supply of metal. Recent expansion of aluminum production capacity throughout the primary industry is assurance of continued future supply. The supply of secondary, on the other hand, is dependent on the availability of aluminum scrap, and varies from time to time.

Primary metal has a stable price structure, where the price of secondary varies with supply and demand from day to day. The comparison between the price structures will be found in the chart, "*Average Monthly Price of Primary and Secondary Aluminum (January 1948 to September 1959)*," elsewhere on this page.

Primary aluminum is backed by continuing, large-scale research and development programs to improve the casting quality of the metal. Kaiser Aluminum, for instance, pioneered the development of high purity alloys C355, A356 and 357, which combine excellent casting characteristics with especially high mechanical properties. Kaiser Aluminum pig alloys 2351, A2351, 2370 and A2370 are especially suitable for large-scale foundry operations. By adding magnesium, the customer can achieve several modifications of alloys 355 and 356, at prices *below* those charged by secondary producers.

And, finally, technical assistance in solving production and processing problems is made available by primary producers. Kaiser Aluminum offers nationally recognized specialists who work directly with customers in both the foundry and extrusion fields. They are backed up by extensive metallurgical and technical staffs at each of the primary plant locations. •





Mr. BURTON. There are other assertions and conclusions in the article that are debatable and with which I certainly wouldn't agree, but that confirms the position I wish to make: that a producer has definitely shown concurrence with our belief that scrap will not grow as the industry grows.

I resume.

In my statement to this committee in hearings on March 12, 1958 (pp. 209–211) these matters were discussed. I would refer you to the record of those hearings.

The problems discussed there still exist, but they have been aggravated by heavy exports of aluminum scrap, which have been increasing since July of 1959.

We have appealed to the Department of Commerce requesting that exports of aluminum scrap be reduced and controlled, under the Export Control Act, as protection for a domestic industry, and to stop the drain of scarce material.

Our repeated pleas have been denied on the grounds that "at this time, exports do not warrant controls."

During this entire time, from July 1959 to date, exports of aluminum scrap have increased monthly in almost continuous succession. If this drain is permitted to continue, and the Export Control Act continues to be administered by the Bureau of Foreign Commerce as it has been with respect to aluminum scrap, then the pending extension of the act by the 86th Congress will be futile—an empty gesture—and the competitive posture of the smelting and foundry industries will be further compromised.

We are convinced that the Business and Defense Services Administration of the Department of Commerce is in agreement with us that these grossly increased exports of aluminum scrap are detrimental to the development of the domestic smelting industry and its foundry customers.

We are also convinced that somewhere along the line, someone is overriding the Business and Defense Services Administration recommendations for some unknown reason. We think this committee should, and will wish to, ascertain where and why this obstruction exists and to recommend the means to remove it.

The committee will be enlightened by table III (attached) which shows how exports and imports have moved yearly from 1950, when exports amounted to 1.6 million pounds, to 1959 when they reached 65 million pounds. One quick glance at this table will impress upon you our reasons for concern. Exports in the first quarter of 1960 were three times those of the first quarter of 1959.

If 1960 continues at the export rate established in the first quarter, we will export over 120 million pounds this year.

It seems starkly evident that something must be done. This evil will not pass just because someone chooses to ignore it, and if the intent of Congress with respect to the administration of this Export Control Act is not being carried out, this committee will surely wish to ascertain why.

I would like to make a further addition here and say that we are fully aware of the fact that foreign countries place high import duties on imports of primary aluminum and relatively none or none at all, in fact, in some cases, on the imports of scrap.

That, therefore, makes scrap imports very attractive. We submit to you that if these countries need aluminum, all they need to do is take off their import duty on primary aluminum, which is in plentiful supply, and they would soon have all their wants filled from the world market. They would not need to lean on the limited supplies of aluminum scrap in the U.S. market.

It will be noted that from 1954 through 1959 we have exported over 280 million pounds of scrap. Actually, that is almost 300 million. Had most of this scrap (say 200 million pounds) been retained at home for processing into ingot, some of the rather recent deals—

such as the Chryslum, Ltd., deal—might not have proved so attractive, and it would have resulted in furnishing approximately 1.5 million man-hours of labor necessary to transform that scrap into ingot.

So we have been guilty of exporting American jobs, and when we realize that much of this exported scrap undoubtedly comes back to this country as castings in imported articles, or in semifabrications, it is clear that we have exported not only jobs in smelting plants to the amount of 1.5 million man-hours, but additional jobs in foundries and other fabricating plants as well.

The foundry labor alone in producing castings from this ingot would probably be several times that required to produce the ingot. It is difficult to see how this exporting of the jobs of American workmen contributes to the welfare of the domestic economy, even though it may gratify professional altruists.

Altruism may be a wonderful thing, but, as with all things, when carried to excess it becomes an evil. When it reaches that stage, we think it is time to call a halt.

As to hot metal deals, in the record of the March 12 session (pp. 187–189), Mr. David Laine of the American Die Casting Institute, challenged the fairness of the pricing involved. So also did this witness (pp. 212–216), questioning the 2.52 cents per pound indicated cost for pigging metal. In that record will be found testimony from smelters showing the cost of pigging in the smelting industry to be from one-quarter to one-third cent per pound (p. 215), and the testimony of representatives of two of the producers that it did not cost them 2.5 cents to pig metal as is implied in the hot metal contracts (p. 214).

The only thing in the hot metal field that has been changed since our previous meeting has been the addition of a new contract with a new twist. This new contract, instead of serving a foundry adjacent to the reduction plant, contemplates the transportation of molten metal over long distances on public highways to a captive foundry.

Since the other hot metal contracts, whose pricing has been questioned, are in the records of this committee, it would seem to be only right that the terms of this new contract be included also.

What "pigging" cost does it reflect? Is the discount based solely on the saving to the producer of pigging cost only, or does it join the others in extending most-favored discounts, the legitimacy of which has been questioned, and whose legality still remains under a cloud?

I think it should be restated here for the purpose of clarity that the aluminum smelting industry has never opposed hot metal deals as such. In fact, we welcome them, as we would welcome any other contributor to the rapid increase in aluminum consumption which will, in future years, come to the market as scrap.

Our sole and continued objection is the unfairness of the pricing of hot metal, representing, as we believe, the extension of preferential discounts beyond the actual saving to the aluminum producers. It is our contention with respect to the hot metal contracts of record, that any discount, beyond the actual saving of cost to the producer, is preferential and thereby contravenes the Robinson-Patman Act.

The subject of unfair pricing was also charged, in the March 1958 hearings by Mr. Naisuler of the Extruders Council (p. 228). Nothing seems to have been settled regarding that complaint either, as now 2 years later, we read of the same complaints by the extruders.

It is noted that in the final report of the subcommittee (H. Rept. 2716, 85th Cong.), the subcommittee appeared sufficiently impressed as to select from the welter of testimony, and to comment specifically upon, the controversy over the pricing of hot metal, etc., (pp. 5–7)—yet, no recommendation to the Federal Trade Commission or the Department of Justice was made, and no sign of any action by either of those regulatory bodies has been evident. Those hearings took place over 2 years ago, and the subcommittee's final report was dated December 12, 1958, almost 1½ years ago.

Surely these accusations and conflicting views require examination and correction where needed. Apparently nothing will be done without the explicit recommendation of this subcommittee.

It is noted that the Department of Justice has found time to institute divestiture proceedings on transactions of dates later than the hot metal complaints, and which appear to be less damaging to competition than the hot metal pricing; yet they have been strangely quiescent on this subject of preferential discounts by way of hot metal.

Unless probings and forays of such questionable nature, around the perimeter of rectitude, are promptly held up for examination and correction, other and more bold experimental excursions, each delving a little further into the twilight zone, may be encouraged.

One other new factor, which has been injected into the aluminum picture, should be commented upon.

Legislation has been proposed (H.R. 10855, S. 3133 and S. 3144) which would increase the duty on imports of aluminum pig to 4 cents per pound. These bills have been referred to the appropriate committees.

It is to be devoutly hoped that they shall die there. Passage of such legislation would place additional burdens upon many of our foundry customers particularly, and would be an out and out invitation to reprisals by other nations.

There is but one last point I wish to emphasize—that is, to repeat the closing paragraphs of my statement of March 12, 1958 (p. 216), with one short comment.

> The industry I represent asks only that it shall be free to operate independently under the law, to compete on an equal basis in an open, competitive market, and to serve its customers under such conditions, free from dominance or the threat of dominance by its competitors.
>
> The preservation of such an unfettered and nonsubsidized status for all competition in the aluminum casting alloy field will go far to insure the right and the power of the small independent smelter and foundryman to exist, and to prosper according to the quality of his product, his efficiency, his effort, and his services to his customers.

That right is being abridged.

The power to correct it does not rest within the smelting industry.

That power resides in the Congress, of which this subcommittee is an arm, and with the regulatory bodies created for the purpose, yet which appear to have remained calmly unruffled and inarticulate over the matters complained of before this subcommittee and its predecessors back to 1955, and earlier.

Many words have been recorded: We feel it is now time for action.

Mr. YATES. Thank you, Mr. Burton, for a very strong, compact and excellent statement. The tables which are presented as a part

of the statement may be included in the record without objection. (The tables referred to in Mr. Burton's statement are, as follows:)

TABLE I.—*Scrap producing forms*

A. SUMMARY[1]

Year	"High"	"Low"	Year	"High"	"Low"
	Percent	*Percent*		*Percent*	*Percent*
1950	74.6	25.4	1955	47.8	52.2
1951	72.8	27.2	1956	49.1	50.9
1952	72.8	27.2	1957	46.3	53.7
1953	69.8	30.2	1958	44.2	55.8
1954	54.7	45.3	1959	45.6	54.4

B. WROUGHT PRODUCTS[2]

[Percent]

Year	Sheet, strip, plate, forgings [3]	Foil [4]	Rolled [3]	Wire [4]	Extrusions [4]
1950	54.7	([5])	12.6	([6])	11.6
1951	51.4	([5])	14.5	([6])	13.0
1952	44.5	([5])	19.2	([6])	14.8
1953	47.1	([5])	15.3	([6])	15.2
1954	40.6	4.1	7.5	6.4	18.1
1955	39.2	5.6	3.6	7.1	21.3
1956	41.2	5.2	3.2	8.0	20.7
1957	35.6	5.6	3.3	8.1	21.9
1958	37.7	6.4	2.3	8.6	24.6
1959	39.1	6.1	3.1	7.8	25.1

C. CAST FORMS[7]

[Percent]

Year	Sand [3]	Permanent mold [4]	Die [4]	Year	Sand [3]	Permanent mold [4]	Die [4]
1950	7.2	6.7	6.6	1955	4.9	8.3	9.6
1951	7.7	6.5	6.5	1956	4.6	6.9	9.9
1952	8.9	6.4	6.7	1957	4.4	6.8	11.0
1953	7.3	6.6	8.1	1958	3.8	6.2	9.8
1954	6.4	7.8	8.7	1959	3.4	6.5	8.9

[1] "High" and "Low" scrap ratio items as percent of total shipments of scrap producing forms.
[2] As percent of total shipments of scrap producing forms.
[3] High scrap ratio items.
[4] Low scrap ratio items.
[5] Included with sheet.
[6] Included with rolled forms.
[7] As percent of total shipments of scrap producing forms.

TABLE II.—*Aluminum scrap receipts*

[Millions of pounds]

Year	Total	New	Old	Year	Total	New	Old
1950	535.7	368.0	167.7	1957	921.3	714.0	207.3
1951	633.1	465.0	168.1	1958	742.5	566.6	175.9
1952	682.0	518.4	163.6	1959	935.2	721.2	214.0
1953	790.3	613.6	176.7				
1954	672.9	523.1	149.8	Growth, 1959/50 percent	+74.5	+95.9	+27.6
1955	851.1	644.5	206.6				
1956	873.8	674.7	199.1				

Source: Bureau o Mines.

TABLE III.—*Aluminum scrap—Exports, imports*

[Millions of pounds]

Year	Exports	Imports	Net metal gain (+) or loss (−)	Year	Exports	Imports	Net metal gain (+) or loss (−)
1950	1.6	35.8	+34.2	1956	38.3	22.8	−15.5
1951	2.8	40.0	+37.2	1957	36.3	26.3	−10.0
1952	2.0	13.8	+11.8	1958	37.8	19.8	−18.0
1953	9.0	53.2	+44.2	1959	65.0	20.0	−45.0
1954	78.6	16.0	−58.6	1960 [1]	120.0	20.0	−100.0
1955	36.6	42.6	+6.0				

[1] At rate established first quarter.

Source: Bureau of Mines.

Mr. YATES. How many members of your association are there and how many aluminum smelters are there in the country?

Mr. BURTON. There are 16 members of Aluminum Smelters Research Institute, and there are probably in the neighborhood of 60 to 65 actual smelting plants in the country.

Mr. YATES. And all of them are affected by the matter to which you testified?

Mr. BURTON. Yes, sir; any independent smelter.

Mr. YATES. Are all members of your association independent?

Mr. BURTON. Yes, sir.

Mr. YATES. Apex was a member and I wondered whether it was still independent?

Mr. BURTON. Still independent.

Mr. YATES. Is it still independent?

Mr. BURTON. I have not heard of any change.

Mr. YATES. I was under the impression that there was a contract for the purchase of Apex.

Mr. BURTON. I believe that was announced, but I have heard of no consummation of the transaction.

Mr. YATES. It hasn't been consummated yet?

Mr. BURTON. Correct.

Mr. YATES. And it is still independent?

Mr. BURTON. Yes, sir.

Mr. YATES. Mr. Multer.

Mr. MULTER. Thank you, Mr. Chairman.

If I understand you correctly, Mr. Burton, there are 16 members of your association and that those members account for 75 percent of the production of the entire aluminum smelting industry.

Mr. BURTON. Yes, sir; that is correct.

Mr. MULTER. Those 16 members must be rather large in comparison to the other 44 to 59 that account for only 25 percent.

Mr. BURTON. They run the gamut from the very largest to very small units, and it indicates that, generally speaking, those who are not members of the group are quite small.

Mr. MULTER. Tell me, if this is a fair question, why are the other 44 to 59 not interested in participation in your association?

Mr. BURTON. I have often wondered. It provides a free ride, and I wondered why they feel they can get along better without an association that works for their interests than otherwise, but that is a matter that is purely of their own choice.

There is no bar to membership other than that they be capable of producing casting alloys. Size has nothing whatever to do with the requirement.

Mr. MULTER. The amount of your dues or assessments is not a bar to any of these small companies?

Mr. BURTON. They are based on the amount of shipments they make. Therefore, the small ones make much lower contributions than the larger.

Mr. MULTER. You have presented a very interesting picture here with reference to what the Department of Commerce is doing or not doing. Again, apparently, there it is a matter of administration rather than law; am I not correct?

Mr. BURTON. I think it is, and I think it shows a schism somewhere in the Department of Commerce that ought to be ironed out. The right hand does not appear to know what the left is doing.

Mr. MULTER. I am forced to wonder whether or not this is the thinking and mature judgment of the Department of Commerce, or whether or not the Department is subject to pressures from some other agencies of the Government.

Mr. BURTON. That is something that the committee could determine which I would not be able to determine. I suspect it to be true.

Mr. MULTER. We can certainly try, and I think we must try. On the one hand, of course, we have the State Department that is encouraging the underdeveloped countries to develop industry. That means they are going to increase imports eventually.

Mr. BURTON. May I interrupt?

Mr. MULTER. Yes.

Mr. BURTON. To say that the recipients of our exports of aluminum scrap are far from underdeveloped.

Mr. MULTER. That comes to the other side of the picture. The State Department, on the one hand, is urging—and I am not finding fault with the general principle now. I might differ as to how it is being implemented.

On the one hand, we have the foreign aid program which is a good program and a necessary one. On the other hand, we have the Secretary of the Treasury worrying about the balance of payments and saying we must increase our exports.

Well, in this industry apparently Treasury is having its way, because I notice in 1958 our exports were double the imports of aluminum scrap.

In 1960, based on the rate established by the first quarter, they are 3⅓ times more than they were in 1958; the exports are 3⅓ times more than they were in 1958. In 1958 the exports were only double the imports. This year, if this rate continues, they are going to be six times; exports will be six times the amount of the imports.

Mr. BURTON. That is correct.

Mr. MULTER. So the Secretary of the Treasury program apparently is working out in this instance.

Mr. BURTON. Mr. Multer, I can agree with the overall policy of building up the exports for the balance of trade. However, I think that that is painting with too broad a brush when we say "exports." We are exporting here a raw material which provides jobs to make finished products, and the finished products are the articles of com-

merce that will bring the greater foreign exchange, not the raw materials.

We have a raw material which has never been in abundant supply and will never catch up for many years in its availability to the growth rate of the industry, itself, because scrap will come along always as the tail of the hide, not the head.

Mr. MULTER. To emphasize the point you make here as to why you should have controls on the export of this scrap in 1957 and in 1959 we saw approximately the same amount of scrap produced here, and yet our exports of the scrap were 3⅓ times higher.

In 1958, while there was a falloff of about 20 percent in the amount of scrap produced from 1957 to 1958; nevertheless the scrap export had almost doubled.

Mr. BURTON. That is right.

Mr. MULTER. And you say all of this has been presented to the Department of Commerce and they simply said this is not the time?

Mr. BURTON. Export controls at this time are not warranted; controls at this time are not warranted, they said.

Mr. MULTER. Mr. Chairman, I wonder if it would be in order to suggest that we have made a part of the record at the appropriate time the hot-metals contracts that he refers to with these new terms.

Mr. YATES. We will make inquiry of the companies when they come before us.

Mr. MULTER. I would like to refer to page 9 of Mr. Burton's statement for a moment and ask whether or not, Mr. Burton, you heard from either the Federal Trade Commission or the Department of Justice as to whether they agree or disagree with your interpretation of the application of the Robinson-Patman Act?

Mr. BURTON. No, sir.

Mr. MULTER. You have had no comment either way?

Mr. BURTON. No, sir.

Mr. MULTER. Thank you, Mr. Chairman.

Mr. YATES. Mr. Burton, as Mr. Multer points out, the export-import picture in table 3 of your statement is a very impressive one. If there is so much aluminum scrap being exported, what has been its effect on the businesses of your association members and upon the smelting industry? Have your members lost any business during the last year?

Mr. BURTON. Yes, they have unquestionably lost business because they have lost pace with the growth of the use of castings.

As was indicated in this quote from the Kaiser study, where castings would increase 215 percent between 1957 and 1965, but secondary metal only 110 percent. Now castings increased last year—I am sorry, I cannot give you the figure without checking up. I have figures that I can check up, and will give you the percentage of increase in the casting field and the growth of the smelting industry in the same period.

The main effect of the hot-metal contracts, the big effect, will be felt this year.

Mr. YATES. I wondered whether your members have felt the impact last year or whether you are worried about the future, whether you are worried about the trend rather than about the present condition?

Mr. BURTON. I am more worried about the latter part of this year and next year and the following years than I am about what happened last year or the first quarter of this year.

Mr. YATES. Last year, your members had sufficient scrap with which to engage in business?

Mr. BURTON. That is right; yes, sir.

Mr. YATES. And to take care of all the business they could get?

Mr. BURTON. And at the moment there is a sufficiency of scrap. But like all of these other moments that have occurred in the aluminum industry—and there have been two or three moments when scrap was available and quite plentiful—it disappears quickly in the rising trend and we are back in the same old alley, tight. And there isn't enough to promote the growth of the smelting industry commensurate with the growth of the casting field, and we recognize that. But we do not believe that our growth should be stunted additionally by draining those supplies and sending them abroad, when the reason for the interest of the foreign nation in the importation of scrap is because they have high import duties on primary pig and relatively none on scrap.

Again, I repeat: If they want the aluminum, of which there is plenty in world supply, if they were to remove their import duties on primary aluminum, they can get all they want and not shorten anybody's supply.

Mr. YATES. What portion of the scrap is sold in the free market as opposed to going to captives of the producers themselves?

Mr. BURTON. I am unable to give you a figure on that.

Mr. YATES. I was under the impression that a great deal of this is sent by primary producers to their affiliates in other countries.

Mr. BURTON. There are months when it appears so. I think the Department of Commerce or the Bureau of Census could give you actual facts on it. But taking the monthly figures of the exports of aluminum scrap and the countries to which they go, that is the only method I would have, I find that it varies. One month it will be quite high where it appears that a company has been shipping heavily to its affiliate. Then it will die down and that company will probably be shipping to West Germany, Italy, Japan.

Now why would they do that? They have idle capacity. They probably can't sell the primary metal in the world market at the competitive price even with any discount that might be buried in the scrap.

Mr. YATES. Is your industry primarily a domestic industry, or do you sell to other countries, too?

Mr. BURTON. It is almost exclusively, 99.9 percent, domestic.

Mr. YATES. When you were last before us, as I remember your testimony, you indicated that competition in purchasing scrap with the primary producers was a principal source of your complaint. Is that still prevalent?

Mr. BURTON. That still exists, over the market purchases, and we just don't understand——

Mr. YATES. As I remember when you were last in, the price of scrap was around 24 to 26 cents, wasn't it, about 2 years ago?

Mr. BURTON. I don't recall, sir. I would have to look it up to refresh my memory.

Mr. YATES. As I remember, the competitive bidding was forcing the price of scrap up to the point where it was almost at the same level as prime.

Mr. BURTON. I think that is correct.

Mr. YATES. There is quite a difference today, though, is there not?

Mr. BURTON. I can't answer that. I don't know what the price of scrap is today. I pay no attention to the price.

Mr. YATES. If there is a significant difference in the price levels of scrap and prime would that indicate to you that there was a great competition for the scrap between your industry and the primary producers?

Mr. BURTON. I don't quite follow your question, sir.

Mr. YATES. Suppose the price of scrap is 17 cents in comparison to 24 cents, as it was several years ago. There was a closer relationship between the scrap levels and the primary levels at that time, and, as I remember the contention that was made, was that the aluminum companies had entered the scrap field and that your effort to get it and their efforts to get it were sending the price up.

If the price is correspondingly lower, wouldn't that indicate that the competition wasn't as great?

Mr. BURTON. Well, it would indicate that there isn't quite as much demand for ingot at the moment as there was at the time in question.

Mr. YATES. Presumably, the scrap——

Mr. BURTON. As I say, this is one of those points where we have a moment in our history where there is a sufficient supply of scrap, and that moment passes quickly and we are back in the same old blind alley. We are tight.

Mr. YATES. Is this the time for controls, then, if you don't have——

Mr. BURTON. On exports?

Mr. YATES. Yes.

Mr. BURTON. Yes, the time is 2 years or more past when we should have had that.

Mr. YATES. Because of the point you make that aluminum scrap is in essence a primary resource of the country that can't be recovered?

Mr. BURTON. That is correct.

Mr. YATES. Mr. Moore.

Mr. MOORE. Mr. Burton, who controls the aluminum scrap of the country?

Mr. BURTON. There isn't anybody—you can't say this man controls it or this company. Scrap is sold in a market which is open to bidding.

Mr. MOORE. Is this a competitive bid arrangement?

Mr. BURTON. Yes, sir. If somebody wishes to get a certain type of scrap that may be tight, he probably bids higher.

Now our entire point on the activities of the primary producers in the scrap market is not to contest their right to buy scrap or even to go into the smelting business, if they want, or into the secondary industry, as they have at times in the past been in and withdrawn, and who may be in it today to some degree.

Our only point of contention is they should not be permitted to use the scrap market as an avenue for burying the sins of other departments. If they want to go into the market, into the industry as out-and-out smelters buying scrap and selling ingot in a competitive market without using it as a dumping ground for other operations, no complaint can be offered.

They would have to buy their scrap at competitive prices to sell their ingot at competitive prices.

Mr. MOORE. It would seem to me in the recital of the percentage of the production which you represent that, in essence, you come before us, as far as the industry itself is concerned, as the big-business segment of the aluminum smelting industry; is that correct?

Mr. BURTON. We consume the greatest volume of the scrap on the market.

Mr. MOORE. As to your membership, I believe in response to a question from the gentlemen from New York you said that you represented the largest and in some instances the smaller members of the American aluminum smelting industry.

Mr. BURTON. That is right.

Mr. MOORE. Is that right?

Mr. BURTON. That is right.

Mr. MOORE. And so by virtue of that answer, in response to that question, you are identified with the big-business segment of the aluminum smelting industry?

Mr. BURTON. Except that all, practically without exception, all the companies developed in the aluminum smelting industry would come under the category of small business as described by the Congress or by the committee—Small Business Committee.

Mr. MOORE. I can't quite follow you there. It would seem to me, sir, that the 40 to 50 members that are not members of your organization would qualify in that respect as representing the small-business segment of the smelting industry.

Mr. BURTON. All of them do, whether they are members of our group or completely independent. They are all small business ventures.

Mr. MOORE. Well, I had been led to believe that in an industry such as yours, where one company produced or controlled 25 percent, or was usually looked upon as the largest producer in that industry, that even though it was a small industry, he was the big business in that particular industry and, therefore, didn't fulfill the category of a small businessman.

Mr. BURTON. I think we are into an argument that has ranged far and wide within the Small Business Committee—the Small Business Administration, as to what is a small business unit. And I think there have been various definitions used and the last that I recall of hearing was that a company employing 500 or less was a small business venture.

Mr. MOORE. I think, sir, that that is one of the factors that is considered.

Mr. BURTON. I don't think there is a smelter in the industry that employs 500 people.

Mr. MOORE. But you come before us representing 75 percent of the total production.

Mr. BURTON. That is correct.

Mr. MOORE. Of the business. And that also is a factor in determining whether we are talking about a small business here or big business.

Now, who represents, and who has spoken before this subcommittee, for the 40 or 50 small smelting plants throughout the United States, all of which are independent, and not members of your organization?

Mr. BURTON. I don't recall that any have come forward, and I would ask the chairman if I am right.

Have there been any applications from any of the smaller independent smelters?

Mr. YATES. There have been no such.

Mr. BURTON. I have no recollection of any appearing.

Mr. MOORE. Mr. Chairman, have we had placed in our committee files any letters of complaint from these 40 to 50 operating units complaining of the very thing that Mr. Burton complains of?

Mr. YATES. The independent smelters? To the best of my knowledge, the only ones we have had have been from the Smelters Institute, representing the members of that association.

Mr. MOORE. You know, Mr. Burton, I find your statement very interesting, from more than one aspect.

I would want to ask you whether or not this country has any primary—has any import duty on primary aluminum?

Mr. BURTON. Yes, sir; it does have.

Mr. MOORE. How does that compare with the import duty of the various foreign countries that you have alluded to?

Mr. BURTON. Very much less; very much less.

Mr. MOORE. I was very interested in this part of your statement—the manner in which you explain your position—and that is the fact the export of this aluminum scrap is in essence the export of American jobs, but that you treat it differently than if this industry itself, as a whole, was being subjected to a mass of imports of aluminum scrap, or primary aluminum—I mean the resulting unemployment that may exist as a result of that. And it just goes to show me that it just sort of depends in this country on what side of the fence one might be on in order for them to complain of this act.

Mr. BURTON. Mr. Moore, there are no import duties on aluminum scrap, and for years and years we have appeared each year to have the law extended which permits aluminum scrap to enter this country duty free. We think it should come in here, all we can get, and all we can get is 20 million pounds a year now. We don't want any duty on imports.

Mr. MOORE. You use that with respect to your industry here, and the belief that you have that aluminum scrap is absolutely not only essential to the industry in this country, but by that token, a necessary component of the defense of the country, perhaps.

Mr. BURTON. That is correct.

Mr. MOORE. But you use the term here, in reference to the exporting of jobs, in a different light than it is most ordinarily referred to in this question of the trade policies of the country.

Mr. BURTON. I don't quite follow that, and it may be that I have failed to make myself clear. I referred to the Chryslum deal, which is a very excellent example of the exporting of jobs, because they foresaw a tight position on scrap. The company that made the deal never used primary aluminum before, always relied on the smelters' secondary alloys, so-called, made a survey of their position in the automotive field, the expectations to come, and determined that there was not sufficient scrap in the country to take care of their additional requirements. Then they made the deal with Alcan, and that metal is all produced now in Canada; none of it in the United States.

Now, when it comes to export, the exportation of raw materials, which provides the articles that are brought back into this country by way of competitive imports, doesn't seem to me to be the point

the President is interested in building exports. It seems to me they are interested in building exports of articles and finished materials, not raw materials, which are only a drop in the bucket to what would be required.

Mr. MOORE. I certainly would agree with the latter part of your statement.

Mr. BURTON. Here is a raw material that is the base raw material of an industry of small business ventures.

Mr. MOORE. That is right.

Mr. BURTON. Why do we bleed it, when there is plenty of primary aluminum in the world market that these foreign countries could absorb without any difficulty, if they would throw off their high import duties on primary metal? I think the key to the whole thing remains right there.

Mr. MOORE. Well, of course, the picture with respect to the trade policies of the country is far more complicated than the example which you have given us. I don't know whether you know it or not, but I happen to be a Representative from the State of West Virginia, and if there was ever an area of the United States that is adversely affected by the trade policies of this country, it is that area of our Nation. Not only does it go into so many of the things you have perhaps read about day to day very recently, but even now into the one basic economy that is remaining in our State, and that is its steelmaking capacity. So to that part of your statement which suffers and piles abuse upon the trade policies of the country, I want to associate myself 100 percent.

I just simply am intrigued by the unique way in which you have woven in this statement "export of American jobs" into the presentation that you have made today.

I am sorry I didn't have the benefit of listening to your complete statement.

Mr. YATES. Mr. Moore, Mr. Burton is an expert, capable of such phrases. I think some of the phrases in the statement are very noteworthy. I think Mr. Burton has a very good facility for analyzing this.

Mr. BURTON. Thank you, Mr. Chairman. I will get my vest buttons picked up later.

Mr. YATES. Mr. Derwinski?

Mr. DERWINSKI. Mr. Burton, on the first page of your testimony, you refer to the fact that your members are both captive and independent.

Mr. BURTON. Yes, sir.

Mr. DERWINSKI. What is your definition, in your industry, of captive and independent companies, and then could you tell me of your 16, how many are captive and how many are independent?

Mr. BURTON. A "captive" foundry, in our determination of the word, is a foundry which is owned by a company producing castings for the use of that company, not selling castings in the open market, as a job foundry, or as a custom foundry.

Now, you asked a second part of that question that has me kind of confused.

There are no smelters that are captive—I think that is the answer you are searching for—there is nobody in the smelting industry that is captive.

Mr. DERWINSKI. Well, the first page of your statement, though, you specifically say—I stand corrected.

Now, earlier in answer to a question by Mr. Multer, you indicated that—correct me if I am wrong—that approximately 99 percent of your production went into the domestic market.

Mr. BURTON. Yes, sir, that would be correct.

Mr. DERWINSKI. I assume this is a matter of choice.

Mr. BURTON. Yes, I think so.

Mr. DERWINSKI. It is your intention to serve merely the domestic market. Why haven't you attempted to develop a foreign market?

Mr. BURTON. We have not the raw materials in this country to serve this country and a foreign market. And they have given indication that they are perfectly able to take care of themselves.

Mr. DERWINSKI. In other words, you do not need at this point any additional markets?

Mr. BURTON. We would not have the raw material to serve the foreign market.

Mr. DERWINSKI. Let me rephrase the question. If you had the raw material to seek other markets——

Mr. BURTON. I don't know. I presume they would consider it, if there were an abundance and a continuing abundance of material—I suppose so. I don't know.

Mr. DERWINSKI. Well, in other words, you don't seem to be disturbed with the fact that you are not able to expand your operations.

Mr. BURTON. We are disturbed. But the room for expansion is here, in our own market. If we had the raw material, we would grow at the same rate this casting field will grow. But we will not have it.

Mr. DERWINSKI. Now, on the final page—on page 11, you concluded with the remarks that many words have been recorded. "We feel it is now time for action."

Mr. BURTON. Yes, sir.

Mr. DERWINSKI. Now, very specifically, what kind of action should we produce at this time?

Mr. BURTON. I think this committee should find out why the Export Control Act is being administered the way it is, with respect to aluminum scrap. I think this committee should also—and this is critical, if you will—should also, in their final report of the last session, have recommended specifically to the Department of Justice and the Federal Trade Commission that they go actively into this matter of the controversial pricing of hot metal, and make a report on what they decided to do, or what they did not do and why.

Mr. DERWINSKI. Well, in the course of your testimony, you made the statement that the reason that the export of aluminum scrap has risen so rapidly is the lack of an import duty at——

Mr. BURTON. The relatively low or no import duty.

Mr. DERWINSKI. Fine; and there was, of course, a rather high duty on the finished product.

Mr. BURTON. On the primary pig.

Mr. DERWINSKI. Therefore, it would seem to me our first problem would be in reducing the import duty on the primary pig product.

Mr. BURTON. It is not the import duty that we impose in this country. It is on the foreign countries.

Mr. DERWINSKI. All right. Therefore, you would really request that this committee use its influence on the import duties of other nations, relative to——

Mr. BURTON. Well, it would sure help.

Mr. DERWINSKI. And how do you suggest—just how does that fall within the scope and purpose of this committee?

Mr. BURTON. I wouldn't know. I wouldn't know how you could approach it.

Mr. DERWINSKI. Well, could you be handing us something that perhaps we are not qualified to, say—was perhaps not within our jurisdiction and scope to work with?

Mr. BURTON. Quite likely that would not be within your jurisdiction, the import duties imposed by any other country. You probably could not affect it in any way.

Mr. DERWINSKI. At least I, speaking for myself, Mr. Chairman, I find that you have been a source of great education, Mr. Burton. I want to thank you for your cooperation.

Mr. BURTON. Thank you.

Mr. YATES. Mr. Burton is always a source of education.

Mr. Dalmas?

Mr. DALMAS. I yield to Mr. Multer.

Mr. MULTER. Now, the diecasters apparently have an ample supply today. Their main complaint, as I gather it, is the price discrimination—and then they have suggested that it is not legislation they need.

Now, what is the situation so far as your association is concerned? Do you believe, too, that legislation is sufficient if properly enforced?

Mr. BURTON. Mr. Multer, I would question very much if there were any need for additional legislation on this point. I am not an attorney. I am not sufficiently versed to analyze those antitrust laws. But my very candid opinion is that it is simply administrative functions that have not been carried through in the light of the intent of Congress in passing two laws—the antitrust laws, as a group, and the Export Control Act.

Mr. MULTER. Now, your association, on the other hand, also complains that the source of supply of your raw material is inadequate—not the source, but rather the quantity of raw material is inadequate for your progress.

Mr. BURTON. Our commensurate progress; yes, sir.

Mr. MULTER. Now, with the situation that we have as portrayed up to this moment, that the automobile industry, through the captive plants, is using at least 40 percent more of the diecastings than that which is produced by the custom diecasters, isn't it fair to assume that they are producing also at least twice as much scrap as the rest of the industry produces?

Mr. BURTON. No; that won't come back to the market; no.

Mr. MULTER. It won't come back to the market. But the point I was going to make next is won't that scrap, coming out of these—out of the automobile industry—won't that scrap go back to the captive plants?

Mr. BURTON. Which scrap do you mean, Mr. Multer? The scrap from the machining of these castings as soon as they are produced, or the return of the wrecked automobile, years from now?

Mr. MULTER. Let's take them both.

Mr. BURTON. The scrap from the machining of the castings—and it is not great, as you go into permanent mold and diecastings—they are cast more nearly to the final form—the scrap from those operations may go in two directions. It may go back to the producer, or it may go to the smelters. I cannot tell you how much in either direction.

The thing that we welcome is the rapid increase of the application of aluminum castings to that automobile, which 10 years from today will be junked, and the scrap will come back in large tonnages. Our only objection is that the basis of the pricing of the metal from which the castings are now made originally is preferential, and, therefore, detrimental to our growth, and our customers' growth, the independent customers.

Mr. MULTER. Now, is there any appreciable amount of aluminum scrap produced in the automobile manufacturing plants?

Mr. BURTON. Yes; there are quite generous supplies of scrap in the overall from automotive plants—aluminum. It goes both ways. Largely to smelters, but some of it could very readily be going back to the primary producers on one of these alleged toll or conversion deals.

Mr. MULTER. Thank you, Mr. Chairman.

Mr. DALMAS. Mr. Burton, I am interested to know if you can tell me, in connection with these increases in exports of scrap, how much of it is scrap produced by fabricators in this country who ship to subsidiaries or affiliates in other countries?

Mr. BURTON. I have no way of knowing, Mr. Dalmas. I think that the Bureau of the Census, possibly the BDSA, might be able to give you those figures. I don't know. They don't appear as broken down.

Mr. DALMAS. Now, on the question of scrap, and following up the inquiries of the members of the subcommittee, wouldn't a fabricator, whether he were a primary producer or whatever he might be, have a perfect right to ship that scrap without any controls anywhere in the world that he happened to want to?

Mr. BURTON. Yes.

Mr. DALMAS. Unless we were in some situation which, from a standpoint of the national defense, we had to have that scrap?

Mr. BURTON. At the moment, I would see no law to prohibit him from exporting his own scrap. But I think you have to carry it further. What is the reason for the exportation? Is it being exported as an out and out sale in competition with world markets, or is it to deplete the system? Have they got too much aluminum in their system? If they have too much aluminum in their system, then why don't they shut down a potline?

Mr. DALMAS. Well, Mr. Burton, I notice from the Department of Commerce figures that the export of primary pig has increased 130 percent in 1958 to 1959—a total of about 242 million pounds.

Mr. BURTON. I think it should increase further.

Mr. DALMAS. So we are exporting both increased quantities of primary aluminum, as well as increased quantities of scrap.

Mr. BURTON. That is right. And the primary aluminum capacity has increased, the availability of the material has increased, whereas the availability of scrap has not increased proportionately.

Mr. DALMAS. And, of course, the imports of aluminum scrap have decreased, as you so well point out.

Now, why did that happen?

Mr. BURTON. Well, the market prices—world market prices are probably too high to allow us to bring it into this country. The price abroad must be the same for foreign scrap as it is for our scrap, and for the very same reason.

Mr. DALMAS. You mean the price of scrap in the United States. For example, I notice in the Department of Commerce report, in 1955 we imported 81 million pounds of scrap at a price that ranged from 16.375 to 24 cents per pound, and in 1959 we brought in almost 22 million at between 17¼ and 18½.

Mr. BURTON. Scrap imports?

Mr. DALMAS. Yes, sir—as reported by the Department of Commerce.

Mr. BURTON. Well, we definitely have a difference of opinion on that, because taking the figures from the Bureau of Mines, the imports of aluminum scrap in 1955 amounted to 42.6, and the imports in 1959 amounted to 20 million.

Mr. DALMAS. Well, perhaps this correction will make us both talk about the same thing. The 81 million includes starter metal classified as scrap.

Mr. BURTON. That is a horse of a different color.

Mr. DALMAS. Exactly what is starter metal.

Mr. BURTON. Starter metal is the initial run of aluminum from a primary potline, which picks up an abnormal amount of iron, and is of lower grade than after the pot has been, as they say, broken in. It is primary, it is not scrap, and was mistakenly classified as scrap, and as you probably well recall, I fought the issue for years, that it should not be included in aluminum scrap figures. Let it be termed——

Mr. DALMAS. It is reported as scrap, I believe.

Mr. BURTON. That is correct. And it, therefore, distorted the import figures.

Mr. DALMAS. I think that is all I have, Mr. Chairman.

Mr. YATES. All right.

Thank you, Mr. Burton.

The committee will stand in recess until 1:30, at which time we expect to hear from Mr. Mighdoll, and Mr. Wakesberg, of the National Association of Waste Material Dealers; Mr. Weder of the Highland Supply Corp.; Mr. Starr of the Aluminum Extruders Council, and, if we have time, from Mr. Edwards of the Department of Commerce.

(Whereupon, at 12 noon, the committee recessed, to reconvene at 1:30 p.m., the same day.)

AFTERNOON SESSION

Mr. YATES (presiding). The committee will come to order.

The next witnesses are from the National Association of Waste Material Dealers. The two witnesses that we have scheduled are Mr. Mighdoll and Mr. Wakesberg. Are they here?

Mr. Mighdoll, would you like to speak first? We are glad to have you, Mr. Mighdoll, and we will be very pleased to hear what you have to say. As I understand it, you don't agree entirely with Mr. Burton.

TESTIMONY OF M. J. MIGHDOLL, ADMINISTRATOR, REPRESENTING FOREIGN TRADE AND METAL DEALERS DIVISIONS, NATIONAL ASSOCIATION OF WASTE MATERIAL DEALERS, INC.

Mr. MIGHDOLL. That is true.

My name is Manny J. Mighdoll, and I am here today to represent two divisions of our association: the Foreign Trade Division and the Metal Dealers Division of the National Association of Waste Material Dealers. These two divisions speak for the large majority of nonferrous scrap metal dealers and exporters in the United States.

Our interest at this hearing is confined to one subject: that of aluminum scrap exports. Since this subject was announced as part of the agenda of the hearings, we want to thank Chairman Yates and the committee for inviting us to present our point of view on a subject that is of vital importance to our industry.

We have sought to keep this statement as simple and forthright as possible so as not to complicate it with extraneous material. We will give some facts and figures and some price statistics and these are documented as to source in the appendix to this statement.

At the outset, we would like to point out two things which, we believe, are relevant to the discussion at these hearings:

1. As scrap metal dealers (and we use this term here to include exporters), our members are small businessmen at the level where the term "small business" really applies. While, in a sense, an evaluation of "small business" sometimes develops in relative terms, we think that the committee will hardly argue the point that scrap metal dealers, most of whom operate with just a handful of employees, are certainly not in the class of the domestic aluminum smelters or the primary aluminum producers.

2. It is interesting that the question of exports should be coming up at this hearing just at a time when the Department of Commerce is inviting members of our industry to Washington to participate in an export trade promotion program. For example, members of the copper scrap industry have been asked to attend a meeting on this very subject on May 10. Members of the aluminum scrap industry expect to be called to Washington later this year.

We should also like to point out to the committee that there are two kinds of aluminum scrap exports:

1. The traditional shipments of dealer scrap through established trade channels to customers abroad; and

2. Export of producers' scrap which represents, we believe, a substantial tonnage of current shipments and which may be for intercompany transactions.

Scrap exports by dealers are part of the normal, historic pattern of the industry, and such shipments have been going since the inception of the industry. All export shipments are to friendly countries whose industries depend, in large part, on this raw material.

But actually aluminum scrap exports represent only a fraction of domestic shipments by dealers. The bulk of dealer shipments are to their principal customers, the secondary aluminum smelters who consume 80 percent of all the scrap used in the United States.

There is some feeling that unless other outlets for scrap were available, the scrap aluminum industry would become a "captive" market, subject to control—supplywise and pricewise—of the domestic smelters.

Exports represent that marginal tonnage movement essential to the industry.

In the history of any industry there are bound to be years when exports are higher or lower, depending upon many factors both in the United States and abroad. Thus, for example, in 1954 the domestic consumption of aluminum scrap was 700 million pounds.[1]

That year exports of aluminum scrap reached 78 million pounds,[2] or 11 percent of the domestic consumption of scrap. Yet the smelting industry in the United States has grown consistently since 1954 and suffered no harm to its progress because of the quantities of scrap shipped in that year.

In 1959—last year—export shipments of aluminum scrap were below those of 1954. They were 64,757,000 pounds[3] out of a total domestic consumption of 912 million pounds.[4] Therefore, scrap exports only represented about 7 percent of total scrap consumed in 1959.

Aluminum is an international metal and trade in aluminum is, of course, worldwide. Not only scrap is being exported from the United States; aluminum in other forms also is being shipped abroad in the normal course of international trade. For example, in 1959, 242 million pounds of crude aluminum were exported from the United States. This represented a rise of 130 percent over 1958. Scrap exports in the same period rose only 71 percent.[5]

At this point I just want to digress from my prepared statement to indicate to the committee the results of an informal survey which we made on the availability of aluminum scrap among our dealer members, and the results indicated that beyond the shadow of a doubt there was sufficient supply to meet the full domestic demand, and we know of no prolonged moments that would cause us to doubt the sufficiency of aluminum scrap for the domestic smelting industry on both a short-term and a long-range basis.

A study of scrap aluminum prices in 1959 would indicate quite clearly the stable tendency of this raw material and would show no undue market pressure because 7 percent of scrap was shipped abroad.

This can best be illustrated by the following facts:

On December 17, 1959, the price of primary pig aluminum was raised by the producers from 24.7 cents a pound to 26 cents a pound.[6] The price of primary pig aluminum serves as a price basis for the entire aluminum market. But, in spite of the higher prices, the secondary smelters today are paying less for scrap than they did before December 17.

For example: The American Metal Market on December 15, 1959, quoted smelters' buying prices of mixed aluminum clippings at 16½ to 17 cents a pound. After the price rise on December 17, the quotation rose to 17 to 17½ cents a pound in the issue of December 18. But on April 26, 1960, that same item was being quoted at 16 to 17 cents a pound, less than it was on December 15, 1959, before the rise in the primary pig price.[7]

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[1] "Metal Statistics," published by American Metal Market (p. 611).
[2] "Materials Survey: Aluminum," compiled by Office of Defense Mobilization (pp. viii–30).
[3] Report by BDSA Aluminum and Magnesium Division. BD–60–34. Feb. 25, 1960.
[4] Bureau of Mines: Secondary Aluminum Rept. No. 95. Mar. 2, 1960.
[5] BDSA Aluminum and Magnesium Division. BD–60–27. Feb. 11, 1960.
[6] Engineering & Mining Journal, Dec. 24, 1959.
[7] American Metal Market, Dec. 15 and 17, 1959; Apr. 26, 1960.

On April 8, just about 3 weeks ago, the Daily Metal Reporter, one of the trade papers in the industry, had this to say about the market condition of scrap:

> Leading secondary aluminum smelters have reduced their scrap aluminum buying prices by about 0.50 cent on most grades. Smelters indicated that they have fairly good inventories of scrap and have encountered no difficulty in acquiring any needed grades. As a result, they have not been pressing for scrap material.[8]

You can well imagine that when domestic smelters go out of the buying picture and do not purchase scrap, marginal scrap exports assume a very vital position for the industry, keeping small business firms in operation and permitting the continued employment of workers who might otherwise possibly be laid off.

It might also be pointed out in this conjunction that the movement of scrap for export at times when smelter buying ebbs, permits the continued collection of scrap from small factories and industrial plants, granting them a fair return for the scrap. Were there no exports at such times, this scrap might be uncollectible because of vanishing profit margins.

In conclusion, we want to say that the flow of the "marginal" scrap for export is part of the orderly and normal historic pattern of our industry. It helps keep our industry from operating in a "closed" or "captive" market in which a handful of smelters could control the destinies of hundreds of small businessmen who are the backbone of the American economy. We have always thought of scrap dealers as independent small businessmen who try to operate their businesses in the best tradition of the American free enterprise system.

Thank you.

Mr. YATES. Thank you for a very fine statement, Mr. Mighdoll.

You heard Mr. Burton this morning?

Mr. MIGHDOLL. Yes, sir.

Mr. YATES. What do you think of his testimony on the trend? He said that currently the members of his association were not being hurt by the export, but he thought that eventually, because of the nature of scrap aluminum, it being a new product, that they were going to be hurt if the export of aluminum were not licensed and controlled.

Mr. MIGHDOLL. Our industry, as you probably know, Mr. Chairman, depends on a vast collection system all over the country. Material is collected and eventually funnels its way through dealers and then into the hands of smelters and is exported, as the statistics show.

We have found that history has shown that this collection system can expand or contract as the demand warrants, and we are very proud of the record of our industry, particularly in times of emergency, in the ability of that industry to expand, and to collect the needed material which is demanded by the consumers.

In short, we have always found our industry able to supply the scrap, whether it be aluminum or any other commodity, as demand warrants.

Mr. YATES. Then you don't agree with him on the alarming trend, to use his phrase?

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[8] Daily Metal Reporter, Apr. 8, 1960.

Mr. MIGHDOLL. I see no alarming trend, nor do any of our members. I believe that if you just compare the consumption figures in the United States—I am not talking about exports, just the domestic aluminum consumption, which is mostly by the smelters—between 1958 and 1959, there is a substantial increase in scrap consumption.

It went from 752 million pounds to 912 million pounds, or about 20 percent in 1 year, which indicates that if the demand is there, the industry has the ability to produce the needed scrap, and also I would come back to the matter of price.

If there is no strong demand, then apparently—I mean if there is no strong demand, there is no price pressure, and that seems to be the case here.

We would expect to find, I believe, that were there any shortage of scrap whatsoever at the smelter level, that would reflect in the price.

Mr. YATES. What is the lowest price for aluminum scrap in the last 10 years, do you know? Is 16 or 17 cents about the lowest price?

Mr. MIGHDOLL. I wouldn't know when you take in a period as long as that, Mr. Chairman.

Mr. YATES. You talk about 1954. Wait a minute now, in 1959 the price of aluminum clippings was 16½ to 17 cents, and that was the price in December.

On April 26, this figure was—it was the same price. Was it any lower than that, do you remember? Have you been administrator of your association for the last 10 years?

Mr. MIGHDOLL. No, sir, I have been affiliated with the association about 8 years. I have another person with me who, I think, might be equipped to answer your question, if you wish. I think that it has been much higher.

Mr. YATES. I know it was higher. It was higher in 1954 and 1955, when the smelters came in and told us at that time, too, that the exports were in some measure responsible for the price being at that high level; that there was a shortage of primary at that time, however, which was a contributing factor.

Mr. Dalmas, do you have any questions?

Mr. DALMAS. Mr. Chairman, in line with your question about scrap prices, I have a table here which was prepared by the Department of Commerce showing the range of scrap prices from 1953 through 1959.

The range in 1953 was 10½ to 17; in 1954, 13 to 16-plus; in 1955, the year of the shortage, as the chairman mentioned, it went from 16⅜ to 24 cents.

It was about the same in 1956, and in 1957 the range was 17 to 18½; and in 1958, from 15¼ to 17¾.

In 1959 it was 17¼ to 18½.

At the same time, the exports increased and the imports decreased.

I would like to ask Mr. Mighdoll if he could explain to us why the imports of scrap decreased as they have while the exports increased?

Mr. MIGHDOLL. I would say, to answer the first part of your question, that the fact that the imports have decreased would seem to indicate what I have said in the brief here, that there has been no strong demand.

Mr. DALMAS. Would not the strong demand then have been from the countries of origin rather than from our country, and also wouldn't

that indicate the reason for the increase in exports of scrap? Do I make myself clear?

Mr. MIGHDOLL. No.

Mr. DALMAS. If our imports of scrap have decreased, certainly the demand must be strong for scrap in the countries of origin from which we normally import scrap. At the same time our exports of scrap have gone up.

Mr. MIGHDOLL. That is true.

Mr. DALMAS. Indicating the same strong demand for scrap. I think my question is: Given those two factors, why has our demand for scrap in this country lessened in the last 2 years, or has it?

Mr. MIGHDOLL. The domestic demand?

Mr. DALMAS. Yes.

Mr. MIGHDOLL. I don't think it has, as shown by the figures. Between 1958 and 1959, the domestic consumption of aluminum scrap has increased approximately 20 percent.

Mr. DALMAS. In other words, we are producing more aluminum, we are manufacturing more items, we have more scrap?

Mr. MIGHDOLL. That is true. The scrap industry has participated in the growth of the entire aluminum industry, as every segment of the aluminum industry, itself, has. It is an integral part of the industry.

The more aluminum, the greater the aluminum industry, itself, becomes, the more scrap that is going to be generated and thus available for consumption by the smelters or for export.

Mr. DALMAS. As you pointed out, I notice that many of our export items of aluminum have increased, and I also note that our imports of aluminum have increased very materially.

For example, the Department of Commerce on February 5, 1960, has a release saying that fabricated products in the United States increased 80 percent over 1958; and sheets, bars, and so on, 82 percent, and all the way down the list. Those items coming in, in the form that they do, would also indicate an increased scrap production in the final analysis, would it not?

Mr. MIGHDOLL. You mean that material coming back in that form?

Mr. DALMAS. These fabricated products have to be manufactured.

Mr. MIGHDOLL. It makes an additional supply of scrap available for the domestic market, that is correct, sir.

Mr. DALMAS. I had another question in mind when that bell rang.

Mr. MIGHDOLL. In other words, the material you are talking about, sir, the portion of which becomes scrap, is in addition to and above and beyond the scrap which is generated in this country from domestic material.

Mr. DALMAS. My question was this: Going to the steel industry a half a minute, when you take pig iron and iron and steel scrap, so far as use is concerned, you're talking about a similar product.

Now, when you take pig aluminum or ingot and scrap, aren't you in a sense talking about the same end use product?

Mr. MIGHDOLL. I am not that familiar with the iron and steel industry that I would——

Mr. DALMAS. I mean when you are talking about the general use of scrap and pig in the aluminum industry.

Mr. MIGHDOLL. Yes.

Mr. DALMAS. For example, take pig aluminum when it is shipped abroad, which we are doing in large quantities, the question is: Isn't that in a sense the same export proposition that is involved in the export of aluminum scrap?

Mr. MIGHDOLL. Yes, sir.

Mr. DALMAS. Should we stop—what controls, if any, should we put on the export of aluminum of any kind?

Mr. MIGHDOLL. We feel there should be no controls in the sense of a restrictive quantitative control. As a matter of fact, in Mr. Burton's statement this morning he made his statement that he wants his industry to operate in a free and open market.

That is the wish we have for our industry, and we have, as a matter of fact, down the line, the whole association, stood for free and open trade. At this very moment we are lending support to legislation which seeks to continue the suspension of import duties on aluminum scrap coming into this country.

To be sure, that could possibly work to the disadvantage of our domestic dealers, but, nevertheless, we have always taken the position of free and open trade.

So we believe there is no reason whatsoever at the current time, nor do we see anything in the foreseeable future, to require any restrictions on the export of aluminum scrap.

Mr. DALMAS. I think, Mr. Chairman, probably one of the things which is always in our minds, is the fact that before World War II we exported large quantities of scrap and other materials which came back to us in a form which we didn't like.

Do you think that any of the scrap or exports of any kind that the aluminum industry is making is going to countries or other sources with whom we would prefer not to deal?

Mr. MIGHDOLL. No, sir. The Government, itself, keeps very good statistics on which countries are receiving aluminum scrap, and I see no reason to single out the export of aluminum scrap for representing any danger, so-called, to our country than the export of many other commodities which is permissive.

Mr. DALMAS. You are an exporter, and you would know what was going on pretty well abroad.

For example, some of these large quantities of aluminum that we have been shipping to friendly countries in Europe, you would pretty well know, would you not, whether that material was being manufactured for local consumption or for trade around the world which would not be to our disadvantage?

Mr. MIGHDOLL. I will just correct you to the extent that I am not an exporter. I am an official of the trade association, but our members are exporters.

Mr. DALMAS. So I understood.

Mr. MIGHDOLL. And we would, I think, become aware in a general way of any such thing, were it true. I know of nothing at this time that represents any fears in that manner.

Mr. DALMAS. Thank you.

Mr. YATES. Thank you very much, Mr. Mighdoll.

Mr. Wakesberg. We will be glad to hear your testimony, Mr. Wakesberg.

TESTIMONY OF SI WAKESBERG, SECRETARY, SECONDARY METAL INSTITUTE, NATIONAL ASSOCIATION OF WASTE MATERIAL DEALERS, INC.

Mr. WAKESBERG. Thank you, sir.

My name is Si Wakesberg, and I am the secretary of the Secondary Metal Institute, a division of the National Association of Waste Material Dealers. This division represents some 120 firms in the secondary metal smelting industry, of which approximately 40 are smelters of aluminum.

May I say at this point that we greatly appreciate the invitation extended to us by Chairman Yates and the committee to testify before his hearing. As major suppliers of secondary aluminum ingots to the independent diecasting industry and small foundries, we want to go on record in supplementing the views of our customers regarding the hot metal situation. These views, with which we concur, were expressed at former hearings of this committee and will probably be amplified at the current session.

Since this is a subcommittee of the Small Business Committee, we should like to point out that to the best of our knowledge, the majority of the 40 aluminum smelting firms that are members of the Secondary Metal Institute employ less than 100 employees.

We believe that, with the exception of 2 or 3 firms, not one of those firms employs more than 250 employees and there are a number of firms who operate their plants with as few as 10 to 25 employees.

We take a simple and direct position: Anything that harms or is detrimental to the economic welfare of our customers is, in turn, harmful to the smelting industry.

In 1959, the independent diecasting industry purchased 80 percent of its alloys from secondary smelters. If this major consumer of secondary alloys is encountering difficulties because of discriminatory competition of hot metal, then pure logic would indicate that this is of vital importance to the smelting industry.

If aluminum smelters find that their outlet for secondary alloys to independent diecasters and small foundries narrows as "captive" plants take more and more hot metal, then the whole hot metal operation becomes a threat to the future business and the livelihood of the smelters.

I think I can speak categorically for our aluminum smelter members when I say that there is no one who is against fair and honest competition. Such competition is in the best tradition of the American economic system and smelters themselves compete against each other in the buying of scrap and in the sale of ingots.

However, if within the area of such competition there exists a surrepetitious price discrimination because the seller is large and powerful enough to control a situation where, as a result of his "bigness" he can undercut his competitor, then the competition is neither fair nor honest. Nor does it fall within the operation of a free and open market. It is such competition that your committee very properly seeks to investigate.

We base the foregoing comment on a statement by this very subcommittee made after an earlier hearing and published in its report of January 3, 1959, on pages 8 and 9:

> The importance lies in whether the prices at which the hot metal is sold accurately reflect a proper price differential. In the event that the price does not reflect a fair differential, it grants preferential treatment to molten metal users and becomes competitively unfair to the small, nonintegrated fabricators and processors.
>
> Thus, it is apparent that the molten metal contracts could be an important vehicle in granting significant price advantages to the large companies which can commit themselves to absorb large quantities of primary aluminum over their smaller competitors.

From all indications in testimony before this committee by representatives of the diecasting industry, by aluminum extruders, and by other smelter representatives, it has been charged that hot metal prices are preferential and discriminatory.

It has been charged that "captive" plants which receive hot metal secure a price discount of approximately 10 percent plus after deducting the freight factor. Why is this discount granted? It would be granted for the cost saved in the pigging of the metal. Any discount above and beyond the cost of pigging would, in our opinion, be discriminatory and preferential.

But what is the price of pigging? At previous hearings of this committee it has been pointed out that hot metal contracts grant a discount of roughly 10 percent of the list price of 99 percent plus pig aluminum, after deducting the freight factor. Based on the current published 26-cent price for pig aluminum, such a discount should come to about 2.5 cents a pound.

Smelters dispute this figure vehemently. A general consensus among smelters is that the price of pigging lies somewhere in the neighborhood of one-fourth to one-half cent a pound. Testimony before this committee at former hearings has given documentary support to this contention.

Now, one-fourth to one-half cent for pigging is certainly a far cry from the 2.5-cent discount granted under hot metal contracts. It is this type of "preferential and discriminatory" pricing policy that makes it tremendously difficult for our customers—the independent diecasters and small foundries—to compete actively with the "captive" plants.

Earlier this year—on February 4, 1960—the magazine Iron Age had this to say about the hot metal situation (p. 138):

> Now, with the country's two largest producers of aluminum committed to hot metal, it has to be classified as a trend * * *. This opens up possibilities for any large user of aluminum castings within several hundred miles of an aluminum smelter. Small foundries fear this. Also, a captive foundry buying hot metal has more incentive to go after outside work. First, it pays less for aluminum. Under standard hot metal contracts, it must take a specific amount regularly.

The last time this committee was investigating the hot metal situation, there was only one producer involved. This time there are already two. Since the number of aluminum producers in the United

States are few, Iron Age may be correct in classifying the hot metal operations as a trend. Next year will there be three or four?

It is no wonder that the American Die Casting Institute in its most recent yearend review states:

> The impact of the aluminum hot metal contract delivery increases in impeding the expansion of custom diecasting volume may have unhappy future consequences.

It has been pointed out to this committee at prior hearings that aluminum smelters must base the price of their secondary alloys at levels below those of producers' alloys in order to compete successfully. When producers lower their pig alloy prices, smelters must likewise reduce their secondary prices in order to keep a proper spread between the two grades.

Earlier this year the producers cut the price of major grades of alloy pig. But, at the same time, they did not reduce the price of aluminum pig which had been advanced by them on December 17, 1959.

The American Metal Market, a leading trade paper, had this to say on February 27, 1960:

> The unexpected move disturbed smelters of aluminum scrap who reacted by promptly reducing prices of some smelter ingot * * *. Since primary alloy pig has equivalents in smelter ingot, the price cut indicates that the primary industry may be seeking a bigger share of this broad market.

If the primary aluminum industry is encroaching on the one hand into the hot metal field where it is using its vast power of big business to compete unfairly with the independent diecasters and foundries, and, on the other hand, is seeking a broader market for its alloys by encroaching into the province of the smelters and again using its "bigness" as a lever over prices, then we believe it is certainly within the jurisdiction of this committee to investigate the facts and see whether these abuses are not a threat to small business.

In conclusion, we again wish to state that as spokesmen for the aluminum smelters in our secondary metal division, we are vitally concerned with any development that harms our customers. We are equally concerned with any operation that circumvents free and open market trading that is the lifeblood of our American economy. We hope that this investigation, through a public hearing, will help correct existing abuses that are not in the tradition of free and fair competition.

Thank you, Mr. Chairman, and members of the committee, for giving us an opportunity to express our views on this issue.

Mr. YATES. Thank you, Mr. Wakesberg, for your very fine statement.

You indicated that the cost of pigging amounts to from one-fourth to one-half cent per pound. What is the basis for this statement? You say the general consensus of smelters. How did you get this? Did you take the consensus of your smelters?

Mr. WAKESBERG. I did. I have spoken to quite a number of smelters in our own organization.

Mr. YATES. How many smelters are there?

Mr. WAKESBERG. I think I mentioned that there were 40 smelting firms in our association.

Mr. YATES. How do the smelters who are in your association differ from those that are in Mr. Burton's association?

Mr. WAKESBERG. There are more of them.

Mr. YATES. There are more in yours?

Mr. WAKESBERG. There are more in our association.

Mr. YATES. But they perform the same function in the aluminum industry?

Mr. WAKESBERG. When you say "perform the same function," I really don't know. I am not actually——

Mr. YATES. Are there classes of smelters in the aluminum industry, or——

Mr. WAKESBERG. No, except that I think you might say, after listening to Mr. Burton's testimony this morning, that there are probably some smaller smelting firms in our association that do not belong to his association.

Mr. YATES. You are in the minor percentage. As I remember his testimony, I think that his group performs a significant percentage of all the smelting done. Do you have the remaining number?

Mr. WAKESBERG. I would say that nearly every smelter that belongs to Mr. Burton's organization belongs to our organization as well, in addition to which we have many of the small smelting firms that do not belong to his organization.

Mr. YATES. Mr. Burton testified a few years ago about the hot metal contract, and indicated that he thought at that time there was this price differential because he thought the differential wasn't covered by the cost of pigging.

Your statement today indicates your agreement with Mr. Burton.

Mr. WAKESBERG. Absolutely, in this respect on the question of the hot metal contracts, we concur 100 percent with Mr. Burton's statement.

Mr. YATES. What about the possibility that this is a new metal and is not to be compared with the ordinary pigging operation? As I recall the testimony of Mr. McConnell of the Reynolds Co. at our last hearings, he indicated that this was a fourth type of primary metal.

Have you any feeling on this?

Mr. WAKESBERG. We don't regard that as a new product at all, and I think Mr. Burton, himself, at the last hearing gave a very good analogy, if I may quote him.

I think he mentioned at that time that this was analogous to some jelly that is brought to the table from the kitchen either in a bottle or hot on a plate, or something like that, I don't remember the exact analogy. But this is certainly not a new product, and I go along with him on that.

Mr. YATES. You also mentioned the fact that the primary producers are moving into the secondary alloy field now.

Mr. WAKESBERG. As I say, I am merely quoting a statement there. This is something that the committee, itself, might have to investigate.

Mr. YATES. Have you found this to be true in connection with the operation of those who are members of your group?

Mr. WAKESBERG. From the members that I have spoken to, there is some fear that the primary producers may be moving into the field, although I will say, on the one hand, that we don't regard this as seriously, now, as seriously as the question of hot metal, itself.

Mr. DALMAS. Mr. Chairman, I would like to ask Mr. Wakesberg this question.

Suppose one of your members had an opportunity to secure a hot metal contract by having a diecasting plant or some other plant settle down beside the smelter. In this case, how would you go about figuring the price of that hot metal going over to this supposed customer who is locating next door to your member? How would you go about it?

The reason I ask that question, if I may go a little further, is the fact that we have this complaint, namely everybody says that the hot metal price of the primary producers is wrong. Nobody has come up so far and told us what is the proper way to figure such prices.

Mr. WAKESBERG. If I get your question clearly, in other words, you are asking me what would I do about the difference——

Mr. DALMAS. What increments would you include in the price, if you had this person settle down beside one of your members and offer to make a hot metal contract?

Mr. WAKESBERG. All we are saying is this: If it costs a quarter or a half cent a pound to pig the metal, and if an aluminum producer is getting 2½ cents a pound for that, and he is only getting it because he is in a position as a large producer to make this kind of a contract with a consumer, then we feel that this is far and above what he should be getting for that metal.

He is only doing it because as a big producer he is in a position to get it. We are not saying, and I am not saying, and I don't think anybody has said exactly what you can do about it except, as this morning, both Mr. Kellers said and Mr. Burton said, that the law should be administered properly, and perhaps it hasn't been, I don't know.

But the Robinson-Patman Act should be administered properly in this respect. I can't think of how I can give you any other answer than that than to go along with both Mr. Kellers and Mr. Burton.

Mr. DALMAS. You couldn't give me a mathematical equation as to exactly how to arrive at the hot metal prices for a plant next door?

Mr. WAKESBERG. I cannot give you that, no.

Mr. DALMAS. Isn't one of the factors that is bothering the secondary smelters, the present scrap prices? For example, the latest one I have ran 18 cents, hence, your raw material is costing you more than the primary producer, is it not?

To phrase it another way, isn't the cost of producing secondary pig at an 18-cent price for scrap higher than the primary producer could take the bauxite and alumina and come out with a pig of the same grade?

Mr. WAKESBERG. I don't have those figures here that I might be able to check and see if that is so.

Mr. YATES. I don't understand the question. Are you saying that the cost of producing a pig based on secondary metal as made out of scrap that costs 18 cents, is higher, the costs are higher, than those of the manufacturer—a producer manufacturing a primary pig?

Mr. DALMAS. Mr. Chairman, I am comparing page 160 of our hearings in the 85th Congress, where we have the cost of pig, as I understand it, and it shows costs from 1947 through 1955 for the various years.

The costs run all the way from 9 and a fraction cents up to 14 and a fraction cents.

Mr. YATES. What page is that?

Mr. DALMAS. 160. I am just assuming, perhaps erroneously, that with 18-cent scrap that perhaps the smelters are up against a cost factor in producing their products that the primary producers do not have.

Mr. WAKESBERG. Let me put it this way. I don't know these figures, and I can't comment on them, because I don't have them in front of me.

But it is true that the secondary smelter is caught in a price squeeze between the price of the primary aluminum alloy and the cost of the scrap for which he has to pay.

In other words, he is sort of in between these two positions, and that is in a sense a price squeeze, no question about it.

Mr. YATES. The figures to which you have reference indicate that in 1956, for example, the cost varied between three primary producers according to this schedule, that the raw material cost to Alcoa was 4.60 cents, Reynolds 4.56 cents, and to Kaiser 5.08 cents.

It would seem to me that the answer to your question is obvious, if it cost them 18 cents a pound, and they have to add power costs and manufacturing costs, too. Would you not say that the answer was obvious?

Mr. WAKESBERG. Yes, I think that is so, as you put it, Mr. Chairman.

Mr. DALMAS. That is all; thank you, Mr. Wakesberg.

Mr. YATES. Is it possible that the formula for computing this little mold of jelly that we are talking about is different when it is in mold form than when it is in solid form?

Mr. WAKESBERG. I haven't seen any evidence to prove that, but there, again, I am no technical expert on these matters.

Mr. YATES. Are you an expert in the field of secondary metals? Could you tell us whether it is different in the formulation of a secondary ingot, whether there is a difference in the manufacture of a secondary ingot cold as opposed to hot? Is this the formula you use in the computation?

Mr. WAKESBERG. As far as I have been able to discover on the hot metal contracts and as far as the expert advice that was given in testimony before these hearings by other gentlemen who are better learned in this matter, there seems to be no difference at all, and this is not a new product and there is no reason why this thing should cost 2.5 cents when every smelter that I have talked to and everyone who has given evidence here says that the cost of pigging is between one-fourth and one-half cent a pound.

I haven't been able to find the evidence.

Mr. YATES. Let me go back to my question. Are you familiar with your industry?

Mr. WAKESBERG. Yes.

Mr. YATES. With the costs of your industry?

Mr. WAKESBERG. I don't know the exact costs, no. I wouldn't be able to answer unless I would check on that. I don't have any such figures with me, Mr. Yates.

Mr. YATES. Do you know the various formulations of costs in your industry?

Mr. WAKESBERG. In a general sense, yes.

Mr. YATES. Is there this scheduling of costs on the basis of starting from your raw material, which has its primary costs, and then

adding the costs to the item being produced through its various stages, until finally there remains only the question of solidifying the molten product?

Mr. WAKESBERG. Yes; there are such stages, I would say.

Mr. YATES. There is a gradual accretion of the costs as it moves through the producing stage?

Mr. WAKESBERG. Yes.

Mr. YATES. So that the final cost is the cost of solidifying the product; is that not true?

Mr. WAKESBERG. I don't know whether that is the final cost, but I would say that is one of the final costs.

Mr. YATES. In the manufacturing?

Mr. WAKESBERG. Yes.

Mr. YATES. If it isn't the final cost in the manufacturing process, itself, then the comparison with the jelly isn't an apt one, is it? It would either have to be the final cost or else the comparison——

Mr. WAKESBERG. Let's call it final. I don't know whether you mean the transporting or anything like that.

Mr. YATES. No.

Mr. WAKESBERG. As a stage after that?

Mr. YATES. I am talking only about the manufacture.

Mr. WAKESBERG. I would say yes. I would go along with that statement. I woud say that there have been all kinds of statements made about the actual costs. Some people think it is even less than a half a cent and think that the half-cent price that I mentioned is too high, that a quarter of a cent would be about the right price.

Mr. YATES. You say some people have mentioned this. Whom do you mean?

Mr. WAKESBERG. Smelters that I have talked to in our industry.

Mr. YATES. Those in the industry, itself?

Mr. WAKESBERG. Yes. I questioned them on this before I came here, and I asked them what they would regard as the cost of pigging. As I say, I got a general consensus of a quarter of a cent to half a cent a pound.

Mr. DALMAS. Mr. Chairman, may I ask one more question, or at least make one observation for the chairman's consideration, at any rate?

My point here with Mr. Wakesberg is that we have before us and had in our last hearing charges of price discrimination. But up to this good moment, I don't believe anybody has ever proved price discrimination through cost figures so far as the subcommittee is concerned.

I think it is about time, I suggest it is about time, that somebody give some basis other than just argument for the charges of price discrimination.

Mr. YATES. Well, they have verged on it by indicating what the cost of solidifying an ingot is, and that there isn't this significant difference.

Mr. DALMAS. But they all say that everybody's price is different, and these contract prices which are on file with the SEC would show the prices, and I think last time we had some testimony to the effect as to how the prices were arrived at.

Mr. YATES. You mean by the producers?

Mr. DALMAS. I believe the contracts showed that.

Mr. YATES. Yes; it showed the formula.

Mr. DALMAS. And I am wondering whether or not here the fact that the scrap price is what it is and so on, whether our good friends in the secondary industry aren't caught in sort of an economic situation.

Mr. YATES. What sort of a squeeze would they be in?

Mr. DALMAS. They pay higher costs.

Mr. YATES. I was just going to say what sort of a squeeze would they be in, knowing what they pay for their aluminum raw material, if the primary producers were to take the markup that they take in the secondary business?

Mr. WAKESBERG. Our only position, there, again, in regard to that last statement is simply that we are speaking from the point of view that this is hurting our customers, the independent die casters and foundries, and we feel, therefore, that a proper review by this committee and a proper public airing may be of help in somehow correcting some of the abuses, if they are so found to be abuses.

Mr. YATES. Thank you very much.

Mr. DALMAS. Your scrap price is too high; is there anything operating in the scrap economy that tends to hold up these scrap prices above what they should be?

Mr. YATES. He is asking, in other words, is there an administered pricing system in the scrap industry?

Mr. DALMAS. I don't know what that is, Mr. Chairman.

Mr. YATES. There has been some indication that there might be an administered pricing system in the primary industry.

Mr. WAKESBERG. I think that demand and supply usually determine the price level of anything, and I think the same situation——

Mr. YATES. Would you say that was true in primary ingot?

Mr. WAKESBERG. Not when you—let's put it this way: Unless there are certain controlling situations.

Now, in this situation of hot metal, I think there is some kind of a control. And we feel that this 2.5, if it is so found, is a control——

Mr. YATES. What do you mean by "control"?

Mr. WAKESBERG. What I mean is that if a group, as the producers here, are large enough to control the situation where they will grant this type of discount so as to compete in a discriminatory way with other business, then I would say that there is a control in the situation.

But if there is no such control existing, I think eventually prices find their way with the demand, and if there is sufficient supply and sufficient demand, you will usually find the general level of prices to be correct.

Mr. YATES. Are you talking about the secondary market, or the primary market?

Mr. WAKESBERG. I am now talking in answer to the secondary market.

Mr. YATES. Thank you, Mr. Wakesberg.

Mr. WAKESBERG. Thank you, sir.

Mr. YATES. Our next witness is Mr. Starr of the Aluminum Extruders Council.

Mr. Starr, we are delighted to have you with us and will be pleased to receive your testimony.

TESTIMONY OF LEONARD STARR, CHAIRMAN, FACTS AND STATISTICS COMMITTEE, ALUMINUM EXTRUDERS COUNCIL

Mr. STARR. Thank you, Mr. Chairman. I would like to read this statement, but I would first like to express thanks to the committee for the forum it presents for the discussion of problems so vital to our interests. I know of no opportunity equal to this wherein we may state our problems.

My name is Leonard Starr. I reside at 8315 Forrest Avenue, Elkins Park, Pa. I appear here as chairman of the Facts and Statistics Committee of the Aluminum Extruders Council. I am associated with Michael Flynn Manufacturing Co. of Philadelphia, Pa., as vice president. That company is engaged in the business of manufacture of aluminum windows and aluminum extrusions.

Aluminum Extruders Council was incorporated in 1950 under the laws of Ohio. It has an office in Philadelphia. The purposes of the council are primarily to protect independent extruders of aluminum, that is, those who are not engaged in the production of primary aluminum, and to promote the best interests of its members within the framework of applicable laws. The council has two classes of members. Regular members have the benefits of full membership, and this type of membership is limited to persons or companies engaged in processing aluminum ingot or billet by the extrusion process, who are not engaged in the production of primary aluminum by reduction methods. Associate membership is open to any person engaged in furnishing to the extrusion industry raw material, equipment, or supplies.

Aluminum Extruders Council has studied continuously the problems of the independent aluminum extruders and has caused studies and surveys to be made to collect information relative to market conditions confronting the members of the council.

The independent custom extrusion industry is a development of the period following World War II. Custom extrusions are produced for sale as such. Some custom extruders also produce captive products. In another category there are captive extruders who extrude aluminum solely for further fabrication into their own end products.

Since the end of World War II the number of independent custom extruders has grown, and extruded shapes represent, in volume, the second most important semifabricated aluminum product. Soft alloy shapes, the product produced by independent custom extruders, have been largely responsible for the growth of the extrusion industry as a whole. According to the U.S. Department of Commerce, in a release dated April 4, 1960, shipments of soft alloy shapes increased from 385.8 million pounds in 1954, to 928.1 million pounds in 1959, 141 percent.

The dynamic growth of the number of independent extruders and the volume of their business can be regarded as one of the significant remedial accomplishments of the monopoly litigation conducted by the Department of Justice against Aluminum Co. of America. This striking progress made by independent custom extruders did not go unnoticed by the three principal primary aluminum producers, Alcoa, Reynolds, and Kaiser. Each of them possesses vast extrusion and other fabricating facilities. They have embarked on a concerted course of action aimed at reversing this growth trend. The Aluminum

Extruders Council called attention to this purpose, and the threat it carried, at the last hearings of this committee. We are sorry that we are in a position to confirm the soundness of the fears and the warning we expressed at that time. The integrated primary producers have succeeded in bringing about a downward movement in the percentage of the business enjoyed by independent custom extruders.

The nonintegrated extruders, according to the Aluminum-Magnesium Division of the Department of Commerce, accounted for 61 percent of the gross shipments of aluminum extrusions in 1956 and 1957, and in 1958, this was cut down to 55.5 percent and was further cut in 1959 to 54.4 percent. This has been accomplished by practices by the Big Three which, on the basis of careful study, appear to Aluminum Extruders Council to be either prima facie violations of the antitrust laws or to require legislation making them violations in order that competitive independent small business may be preserved.

Independent custom extruders are confronted by a price squeeze which appears to be practiced uniformly and concertedly by Alcoa, Reynolds, and Kaiser, and has been exerted progressively against independent extruders since approximately 1951. This squeeze is accompanied by practices, reported by members of the Aluminum Extruders Council, on the part of some or all of the Big Three, which appear to be illegal price discriminations and sales of extrusions at unusually low prices, and indeed below cost, for the purpose of destroying the competition of independent extruders.

Some time before 1951, the Big Three began to raise published prices of aluminum products so that the spread between 6063, that is an alloy, extrusion billet, the principal raw material used by custom extruders, and common 6063 extrusions, was narrowed from approximately 17 cents a pound to as little as 9 cents a pound by 1957. Within this same period, the Big Three increased the published prices of most semifabricated products by 30 to 36 percent. Thus, between January 1, 1949, and March 1, 1955, the price of reroll slab was increased by 36 percent, the price of reroll coils by 36 percent, the price of forging stock by 33 percent, the price of sheet by 34 percent, the price of electric conductor cable by 32 percent, the price of foil by 35 percent. In contrast, the Big Three increased their price of common 6063 extrusions by only 10 percent, while they increased the price of pig, the raw material of independent extruders, by 34 percent, and billet, and alternate raw material of independent extruders, by 36 percent.

Independent extruders had to pay these increased pig and billet prices fixed by the Big Three, and had to meet the impact of increased costs of all kinds, with a reduced margin. Since 1955, there has been a further increase in the cost of pig and billet, pig now selling for 26 cents a pound and billet for 28 cents a pound, while the price of extrusions set by the Big Three affords an even smaller margin than was available to independent extruders in 1955. On the basis of present figures, the price of pig has increased, since January 1, 1949, by 62.5 percent, while the price of common 6063 extrusions has increased, in the same period, less than 5 percent.

But this is the situation when you look to published prices. Actual prices charged by the Big Three have been even less. Thus, there are very many "commodity" prices issued by the Big Three only to certain

classes of customers. These prices are much lower than the generally published prices. These prices are not available to the fabricating industry as a whole nor to trade journals which report on market prices. For example, the commodity prices for 6063 extrusions to the truck trailer industry are approximately 4 cents or more a pound below the generally published prices. These commodity prices do not reflect relative difficulties in producing different extrusions. All extrusions of a given alloy, regardless of difficulty in manufacture, bear the same price. This is not true of the regular pricelists issued by the Big Three.

In addition to the further narrowing of the spread available to independent extruders by these commodity pricelists, independent extruders have encountered practices by one or more of the Big Three which result in further reductions in price to customers and prospective customers of independent extruders. Thus, members of the Aluminum Extruders Council have reported to it that some or all of the Big Three have offered or granted free warehousing at the plants of customers, discriminatory advertising allowances, and discriminatory financing of purchases. These practices have worked an intensification of the price squeeze to which independent extruders have been subjected.

There is no doubt that in a dynamic line of commerce such as the soft alloy extrusion industry, independent extruders, faced by their formidable metal suppliers as competitors, have occasionally lowered prices to counteract losses of business. But it must be remembered that no independent, nonintegrated extruder has the capacity to squeeze—only integrated primary producers have such a power through the control which they exercise over the price of primary metal.

By reason of their size and integration, and their financial resources, each of the Big Three is able to offset losses on soft alloy extrusions by profits made in the sale of primary aluminum and in the sale of products other than soft alloy extrusions. Each of the Big Three does in fact operate extrusions facilities for the manufacture of soft alloy extrusions at a loss, and subsidizes these loss operations by profits derived from other parts of the integrated enterprise, including especially the sale of primary aluminum in the domestic market. In this connection, it is truly remarkable to find the price of primary aluminum pig to be 26 cents a pound in the U.S. market, and to find at the same time that Alcoa, Reynolds, and Kaiser sell the same metal to foreign buyers at 23¼ cents or less. We have heard no sensible justification for this policy. If it be suggested that competition abroad requires the American primary producers to be competitive, then it must be that we do not have competition in the United States. If this is so, then a remedy is urgently needed.

I would like to interject for a moment here into the prepared statement.

There was recently imported 500 tons of aluminum pig into the Miami area from Europe, which originated in the United States. It was metal which was exported from the United States by one of the domestic prime producers; 500 tons of that lot, or perhaps that was the entire lot, was brought back into the United States at a major saving in net final cost to the ultimate consumer over an equivalent purchase from a domestic manufacturer.

In other words, this material was able to make the round trip by boat and still be brought back at an appreciable saving over the domestic price.

Mr. YATES. What was the saving, do you know?

Mr. STARR. It was over 1 cent a pound, Mr. Chairman.

Mr. YATES. It was less than 25 cents a pound for pig?

Mr. STARR. Yes.

Mr. YATES. Go ahead.

Mr. STARR. There is no possible cost justification for the 26-cent U.S. price. In 1949, it cost, in material, power and manufacturing costs, about 11 cents a pound to produce primary aluminum pig, which was sold for 16 cents in the United States. These costs are now about 15 cents a pound and primary aluminum pig sells for 26 cents a pound. Even if 1 cent a pound is added for U.S. freight, this price provides a margin of about 60 percent. This is monopoly pricing aimed at, among other things, the subsidizing of less operations in the manufacture and sale of soft alloy extrusions. In fact, such subsidizing of loss operations has become apparent of late as to other lines of aluminum fabrications where, as in the case of soft alloy extrusions, the independents have exhibited a power to grow in numbers and volume of production.

Since this committee began its hearings on the problems of small business in the aluminum industry, the plight of the independent custom extruder has appeared from hearing to hearing. It has been plain that the independent extruders have been subjected to the steady, unrelenting pressure of a price squeeze exerted by the Big Three through their control of the price of primary aluminum. Each time this committee has reported on conditions in this industry, it has found the situation of custom extruders to be indeed one calling for alleviation. The committee has not been misled by the mere fact that simple freedom of access with modest capital to this line of commerce has existed, and has therefore attracted a growing number of small business enterprisers; for the realities are evident, namely that the price squeeze and the discriminatory practices of the Big Three and their sale of extrusions at less than cost, are squeezing the profit out of these independent, competitive operations.

But another phenomenon has emerged and taken shape sufficiently to be identified as a formidable threat to the survival of independent extruders and indeed to the survival of independent aluminum fabricators in other lines of commerce. There has set in a merger movement in the aluminum industry which, unless checked, will eliminate competition in a substantial way and will promote greater concentration of market power in a relatively few companies. In recent years, each of the Big Three has acquired independent fabricators in the United States. This swelling wave of mergers has induced action against Reynolds by the Federal Trade Commission and Alcoa by the Department of Justice Antitrust Division.

But there is a strong likelihood that this merger movement will go on and be extended in fields not directly involved in these two litigations. The acquisition race among the big companies supplying the U.S. independent fabricators has started. The merger movement of the existing primary producers is in its incipiency. It threatens to engulf independent fabricators. What it can mean, unless it is checked promptly at every stage, is illustrated by the recent acquisi-

tion by Alcoa of Cupples Products Corp., a major window and curtain wall producer. Cupples has been one of the major competitors of Michael Flynn Manufacturing Co. It is a company approximately our size, and we have had to reckon with it in almost every instance where we issue quotations to secure business. Now that it is a part of Alcoa it can obscure and obliterate our competitive efforts. In the first place, it can get its raw material, aluminum pig, at a vastly cheaper price. Next, with the help of Alcoa's entrenched ability to make effective recommendations for the specifications of aluminum building products, Cupples can enjoy an advantage over independent fabricators. Finally, the multiplicity of Alcoa contacts and business relationships will provide countless opportunities for reciprocal purchasing.

Again, if I may, Mr. Chairman, interject into this written statement. To someone inexpert in legal terminology such as I would be, I always associate another phenomenon with these mergers, and it is simply the type of merger which results in effect by the financing performed by the prime producers for various fabricators, the extended terms they give them, and in effect the control they thereby have over these companies. A sort of loose-knit merger which, while not recognized so far as I know in any legal sense, has the same effect on the marketplace.

Mr. YATES. Do you have examples of this? How do you know that this happens?

Mr. STARR. Well, we know of a number of companies to whom the prime producers have allowed extended payment terms for their raw material. There are some independent fabricators who owe prime producers of the order of 6 months' supply of raw materials.

In one particular case I know of, the independent fabricator actually has a contract with at least one prime producer, I suspect two, for these extended terms.

In another case, the independent fabricator was so close to going out of business that the prime producer sent to his offices and plants a host of experts, cost experts, accounting experts, to, so to speak, put his house in order.

There are some very, very severe credit losses suffered by the primes over the past 3 or 4 years because of this inordinate extension of credit.

We don't want to see anyone lose money for intemperate extension of credit terms, but the worst thing that happened in connection with these things was the harm it did to the market of allowing an intemperate management to proceed without the normal brakes of costs and of having to meet a payroll and of having to meet the bills for his raw materials.

I think that was possibly the worst effect of this.

Mr. YATES. Companies like Michael Flynn, do they give the same line of credit? Can they afford to give the same line of credit?

Mr. STARR. Oh, my God, no.

Mr. YATES. What is the maximum line of credit that your company gives?

Mr. STARR. We give 30 days except for those customers who we think are a credit risk, from whom we ask a deposit and balance sight draft.

There are many cases of extensions of credit for several months on the part of the primes. In at least one case, as I said, by contract.

Now the primes often collect interest or attempt to collect interest for the period over 30 days. But to have contracted with someone for such an extension of credit is to offer him a price advantage for his raw material, because this particular person couldn't borrow money at anything like the rate given by the primes. He would have had to pay a good bit more, and was paying a good bit more.

Mr. YATES. Do you know as a fact that this company was borrowing money and was paying it to the prime, because this is a banking operation?

Mr. STARR. I have been told by the primes that they were collecting interest.

Mr. YATES. By the primes?

Mr. STARR. Yes, sir.

Mr. YATES. All right. I just want to get the comparison for the record. Is Michael Flynn in a position to help its customers by putting experts in the companies in the event of their——

Mr. STARR. No, sir. We might be able to give them telephone advice, or something like that, but there isn't the slightest possibility that we could afford to send people to a customer's plant to tell him how to collect his money, how to install his cost system, or to work up a program of cost reductions so that he can start making money where he couldn't make money before.

We might give him telephone advice or say "hello" to him in his office, or he in our office, but no more than that.

I will resume the statement.

To everything that has been said to this committee in the past on behalf of the independent custom extruders, there can be added now the threat represented by this growing and darkening cloud of mergers. In the words of Justice Holmes, it is "a brooding omnipresence in the sky." Without some remedy, the independent extruders are in a hopeless situation. They cannot break the price squeeze, the typical independent cannot get a hot metal contract, it cannot become a primary producer because it takes $100 million or more to build a primary smelting plant, and it faces the threat of hopelessly unequal competition as the Big Three acquire more and more independent fabricators.

This Nation appears to be still dedicated to the preservation of small business. Neither this committee nor the Department of Justice is content with mere lipservice to this ideal. Hence, there is a clear need for more enforcement or more legislation to preserve the independent extrusion industry in its strength. It does not make sense to let it become destroyed over the years before finding it to be in need of governmental action.

Mr. YATES. This is a very fine statement, Mr. Starr.

Mr. STARR. Thank you.

Mr. YATES. It goes into the problem specifically. You give examples, and it touches upon all the points very comprehensively.

I will refer your attention to page 5, where you indicate that members of the Aluminum Extruders Council have reported that the Big Three have offered or granted free warehousing at the plants of customers, discriminatory advertising allowances, and discriminatory financing of purchases.

There are more producers than the Big Three in the aluminum industry now. Do your members buy only from the Big Three? Is that the extent of their knowledge of the industry?

Mr. STARR. I would say most of the purchases are from the Big Three. We also have as sources Revere and Olin Mathieson working out of Ormet, Harvey, and Anaconda.

But I am certain that of the order of 90 percent of the purchases of domestic aluminum come from the Big Three, of the domestic pig. Other sources would be the Canadian Aluminum Co. and some foreign sources.

Mr. YATES. Your examples of discrimination though were applicable only to the Big Three?

Mr. STARR. No; I would say they also apply to the other domestic prime producers, or at least to one of them.

Mr. YATES. Inasmuch as we have named three of them, we ought to name the fourth. Who is the fourth?

Mr. STARR. I can only add Revere, out of my own knowledge. My suspicions would lead me further.

Mr. YATES. Extruders are suspicious people these days; aren't they?

Mr. STARR. Yes; I am afraid they are, Mr. Chairman.

Mr. YATES. How widespread through your industry are the granting of special benefits of the type that are outlined on page 5?

Mr. STARR. Quite widespread.

Mr. YATES. Are they widespread? Are they unique examples, or are they widespread?

Mr. STARR. Yes, sir; they definitely are. We hear reports like this, both Michael Flynn from its salesmen and myself as chairman of the facts and statistics committee from the other members of the Aluminum Extruders Council.

Prime producer offers a customer an inventory of the customer's extruded profiles. Now, the customer, let's say, buys a number of different profiles, let's say 10 of them, and the prime producer offers to put them in his inventory and let the customer withdraw, and says, "The withdrawal time and quantity to be on the honor system."

In other words, when the customer reports that he has withdrawn this material from inventory, then the prime producer will invoice him for the material, which means in effect that the customer has eliminated a raw material inventory.

Now, in some States, for instance, California, you have quite an onerous inventory tax. This inventory did not belong to the customer; it belonged to the prime producer, so the prime producer pays the inventory tax, which could be quite a few thousand dollars.

Mr. YATES. Property tax?

Mr. STARR. It is a form of personal property tax. A number of Western States have these taxes. It is a personal property tax.

But the percentage is quite high on inventory, on the order of 3 and a fraction percent. And this is saved, as far as the raw material requirements go, by the customer if the prime has title to the material in his plant.

Now, the primes do other things, too. For instance, they insert into the price structure of aluminum extrusions a special price if large quantities are purchased of an identical profile over a 3-month period. The primes typically, from what I have seen when I was in their plants, extrude this quantity.

In other words, let's say a customer said, "I will take 90,000 pounds of such and such a profile in 3 months," and he would get a special price concession because of that quantity provided he guaranteed to take it within 3 months. The prime would extrude that quantity and lay it down in his warehouse floor.

The independent would have to meet that price without the ability to extrude the full 90,000 pounds both because of space reasons, he doesn't have a warehouse that gigantic, and for money reasons. He couldn't afford to put the money required for 90,000 pounds of extrusions on the warehouse floor.

Mr. YATES. Go ahead.

Mr. STARR. Now, in advertising we heard of a specific case just last week. Mr. Chairman, I thought I would be called tomorrow, as you know, and I would have had the documentation with me. As it is, I would request permission to submit it sometime tomorrow when I receive it here in Washington.

But the documentation will indicate that one of the primes offered to pay one-half of the advertising expenses of a customer up to $15,000 provided the extrusion customer were to buy 30,000 pounds of extrusions per month.

Another case, instead of $15,000 it was $8,000. Now, I think we have all seen spots on television and heard spots on radio during the advertising programs of the prime producers where they talked about particular manufacturers, fabricators, and what they have to offer made of aluminum.

(The above-mentioned material had not been received at time of going to press.)

Mr. YATES. Go ahead, Mr. Starr, we will stay with you as long as we can. There is a rollcall.

Mr. STARR. Now, in financing, I think I mentioned a contract for extended payment terms, and the fact that the financing in a very real sense is almost equivalent to a merger in that the extender of the financing has much to do with the operation of the company, and the company is certainly bound to buy raw material from the financier.

Mr. YATES. How do they select the companies that are to receive the special benefit?

Mr. STARR. Particularly companies that use a lot of aluminum and are very short in money. In other words, this is a means of promoting a sale of a large quantity of aluminum. No self-respecting company would entertain such a suggestion.

Mr. YATES. Would entertain what kind of a suggestion?

Mr. STARR. Suggestions that terms be extended for payment of raw materials. Michael Flynn Manufacturing Co.—I think Mr. Frank Flynn would dismiss me categorically if I, in my position as vice president and controller, accepted payment for raw materials on the basis of say 120 days with interest of 6 percent for 90 days over the normal time.

Mr. YATES. Suppose that this becomes a pattern of the industry as established by the primary producers. Would you still be discharged if you did that? Or is it a question of ethics, or whether your company can do it?

Mr. STARR. It is partly a question of ethics, and on the other hand what would be I think uppermost in Mr. Flynn's mind would simply be this.

We could not afford to extend those terms to our customers, and it would not be good business for us to, on the one hand, take and not be able to give with the other. We would not want to establish a precedent in this business by accepting something where we could not extend the same courtesies to our customers.

And we could not begin to afford to extend our outstanding balances of accounts receivable by 30 more days. That would be far too much money for us.

Mr. YATES. Is this true of your other members?

Mr. STARR. Yes.

Mr. YATES. When I say your other members——

Mr. STARR. The other independent extruders. I would say almost no exception. I know of no exception offhand who could afford to meet that kind of competition.

Mr. YATES. What about the other special benefits that you testified to? You indicated that Michael Flynn didn't have the experts and couldn't extend the financing.

Mr. STARR. Yes.

Mr. YATES. Are there other special benefits?

Mr. STARR. Yes. In the merger area, we have—well, we ran into one that I think would be almost funny if it weren't so tragic, in a sense. We had a case like this.

We had a sale of aluminum extrusions which to us was quite a large sale. It was of the order of 800,000 pounds. Well, that might be something like $400,000. And this sale was to Ward LaFrance for these containers that they put on ships and on railroad flatcars, and in this particular case it was for ships. Ward LaFrance is associated with Highway Trailer Co., especially since the executives of Ward LaFrance were killed in an airplane accident.

Well, Highway Trailers was a major customer of ours and therefore we were in a good position to get this order from Ward LaFrance. We had the order, we had the written order acknowledged, and we started work on it.

We got a request from Ward LaFrance that Alcoa would like 50 percent of that order.

We said, "We have the order, we have the purchase order, and we have acknowledged it and we have a contract."

"Well, please look into it. We are very anxious to give Alcoa 50 percent of the order."

"Well, Why?"

Well, it seems Ward LaFrance is making these containers for a company called Container Ships, Inc. Container Ships, Inc., is associated with Maryland Shipbuilding Co. Maryland Shipbuilding Co., does repair work on Alcoa ships.

So Alcoa started the ball down the line, through Maryland Shipbuilding Co., and so forth, until it came to Michael Flynn, and Michael Flynn has given up 50 percent of this purchase order in order to preserve our relationships with our good customer Highway Trailer Co.

Now, this is the kind of thing we try to refer to when we spoke about the Cupples merger. A strength possessed by a very large company which it is impossible to duplicate at any small company simply by the complicated connections they have with industry in general, the large tree which branches and branches and branches and

could almost be said to reach any area anywhere, if it were necessary to bring influence to that area.

Mr. YATES. This instance that you have cited about the aluminum containers, is that the only instance that comes to your mind, or have your associates in the council, in the Aluminum Extruders Council, encountered similar difficulties; do you know?

Mr. STARR. Yes; definitely.

Mr. YATES. The committee will stand in recess until we answer our rollcall.

(Short recess.)

Mr. YATES. I am sorry for the delay, Mr. Starr, but this is the fortunes of the congressional day.

Mr. STARR. Mr. Chairman, if I may offer an addition to the answer I gave you before with respect to what other actions are performed by the prime producers, we have cited many specific cases in the complaint we sent to the Department of Justice, February 25, 1958, and we have quite a number of pages citing instances in each of these areas of financing, advertising, and warehousing or inventorying for fabricators.

These have all been handed to the Department of Justice in great volume.

At that time we made a survey among the membership, and each member reported to us several cases, and his experience in these categories.

Mr. YATES. And has the Department of Justice been in touch with you on that?

Mr. STARR. Well, yes. Initially we had quite a number of meetings with them, but I would say for something like 8 or 9 months there have not been any meetings.

Frankly I don't know where this stands in the Department of Justice right now. If you will recall, Mr. Chairman, back in 1958, Mr. Naisuler, who was at that time chairman of the legislative committee, represented the Extruders Council, felt constrained and was very properly constrained from elucidating at any great length, because we had been told by the Department of Justice that the matter was under consideration, and not to give any publicity to the contents of the complaint which we had furnished.

Mr. YATES. I had one question with respect to the incident you testified to about the aluminum container contracts. What would have happened if you hadn't given 50 percent of the contracts to Alcoa? Did you demur? Did you try not to give it?

Mr. STARR. Oh, my God, yes. We did demur, and we demurred quite violently.

We were told in effect, paraphrasing what our customer said, "You have performed extremely well on your previous contracts."

It so happened we had shipped quite a high tonnage to Highway Trailer with not a single rejection. The material had been extruded and fabricated. There wasn't a single rejection. It was an experience which they were quite unaccustomed to, as far as the quality of the material was concerned, and the timeliness of the shipments.

And they said, "You are a favored customer. You have performed extremely well for us. Please go along in this particular case. We can assure you that you will receive top consideration in any future work."

Well, we didn't want to endanger that situation by being intransigent when they made it clear they were laboring under something over which they had no control. So we went along with them.

Mr. YATES. Have any of your firms gone out of business? When I say "firms," I means members? I note in your statement that the primary producers are taking over more and more of the extrusion market. I wondered what impact this has had upon your member firms.

Mr. STARR. There are a few who have gone out of business. Quite a number have lost money last year, in 1959. Certainly the——

Mr. YATES. Is that because in 1959 it was a soft year for the aluminum extrusion business?

Mr. STARR. It was a fairly soft year, sir, although it didn't suffer as much as aluminum sheet did in reduction of business compared to the previous year.

But it was a difficult year for all extruders, mainly because the price squeeze was being intensified all year.

We find it more and more difficult to operate in the area between the cost of our raw materials and the typical selling prices which apply on extrusions.

The independent fabricator is without question far more efficient than any prime producer in the extrusion area. There is no question of that.

I and the other members of the council have seen very many of the prime producers' extrusion plants. When we walk in and we see three guards at the entrance, when we could not afford one-third of a guard, we know quite well that he is not making money on his extrusion operation.

We know of instances where their extrusion plants are charged much less for pig. One case I know of, 19.6 cents a pound for pig, whereas the market price was 26 cents for pig.

We know of another case where a prime producer extrusion plant has a budgeted loss of 5 cents a pound, which they have not yet attained, and, I might add, have recently cut their losses in half and still have this budget loss of 5 cents a pound.

In other words, they were previously losing something over 10 cents a pound. It reminds me somewhat of the cafeteria we have in our plant in Philadelphia where we budget the loss at 15 percent of sales. If we charged any more, somebody would say we were making money selling our employees lunch; if we charged any less, we would figure the loss was too great.

But it is a very peculiar situation in business to budget something to expect a loss, and be happy if the loss were only a certain amount. We feel that the typical prime producer extrusion plants lose between 5 and 15 cents a pound.

We know of no prime producer extrusion plant, any of them, Big Three or any of the others, that makes money based on raw material at 26 cents a pound.

Mr. YATES. I note your statement about the Big Three selling primary metal to foreign buyers at 23.25 cents or less. You say, "We have heard no sensible justification for this policy."

The reason given me in outside discussions has been that this is necessary, this price differential is necessary in order to crack the foreign field—foreign market.

Mr. STARR. In the statement we just read, Mr. Yates, we pointed out that if in order to sell in the foreign market they have to accept foreign competition and sell at 23¼ cents delivered anywhere in the world, primarily, of course, Europe, and if the price is 26 cents a pound here, then you can only conclude that there is no competition here.

Now, the material after leaving the port of New York is subject to an ocean freight, subject to commissions by the agent, or whoever handled the transaction, and often subject to inland freight, in, let's say, Europe or West Germany, all for 23¼ cents delivered. Ocean freight is roughly a cent a pound. Commission is roughly 2 percent or a half-cent.

It brings the price down to something under 22 cents a pound, let's say 22 cents a pound delivered, New York port of shipment, compared to 26 cents a pound if you were, say, an extruder in Long Island trying to buy your materials from one of the domestic prime producers.

It is hard to justify a difference like that by simply saying "foreign competition," "competition in Europe," or what have you.

Now, I don't know what sort of trend this would indicate, but in February we exported 40,000-some tons of aluminum pig, crude aluminum.

Mr. YATES. When you say "we," you mean the United States?

Mr. STARR. The United States exported 40,000-some tons. This is a report of the Aluminum Magnesium Division of the Department of Commerce, 42,548 tons. Now that is, of course, a good increase over experience. But if that is any criterion of what is going to be exported from this country, that is at a rate equal to 25 percent of our primary production.

It is very hard for me to see how 25 percent of our primary production can go at something like 22 cents at the port of New York and 75 percent of our production be entitled to 26 cents a pound for the rest of the country. Furthermore, we have a duty on aluminum. Just what is this duty protecting?

We export 25 percent of our supply. Just what purpose does it serve to raise the price of domestic aluminum and make every domestic fabricator pay a high price for material with no benefit to the country as a whole, when 25 percent of the production is exported from this country?

Just what are we protecting if we are in a position to export such a huge amount of aluminum?

Mr. YATES. If you can buy domestic aluminum for 23.5 cents from a foreign market, from a foreign supplier, why don't you do it?

Do you do it?

Mr. STARR. I think the price is somewhat higher than that, sir. Most foreign imported aluminum other than the Canadian source, which I have heard about, is somewhere between 24 and 24.5 cents a pound. In other words, from a cent and a half to 2 cents under the domestic market. And it is being bought, and Michael Flynn Manufacturing Co. does buy it.

Mr. YATES. Where do you buy it from?

Mr. STARR. Most of the foreign aluminum we buy, other than Canadian, comes from Norway, from the Government plant in Norway.

Mr. YATES. What price do you pay for it?

Mr. STARR. We pay 24.2 delivered port of Philadelphia. It costs us about a 10th of a cent to bring it in, so you might say our cost price, in comparison with the cost of domestic pig, is 24.3 cents a pound, or 1.7 cents a pound under the domestic price.

Mr. YATES. Does this include a tariff?

Mr. STARR. Yes, sir. Tariff is 1¼ cents. The 24.2 is after the payment of the tariff of 1¾ cents. Not by us; the Norwegians pay the tariff, and there is commission on that and ocean freight and everything else.

Mr. YATES. It is very interesting.

Mr. STARR. Yes.

Mr. YATES. I have a letter that I received from Tennessee Products & Chemical Corp. dated April 27 to this effect:

> The American metals industry continues to be squeezed by the inroads of foreign competition. Unable to meet the costs of production enjoyed by foreign competitors due to their low labor rates, the iron, steel, nonferrous metal, ferroalloys, and metal fabricating industries of this country are currently suffering in their markets, both domestic and foreign.
>
> Something must be done to reverse this dangerous trend. Otherwise, a vital segment of our economy composed of basic defense industries will suffer irreparable harm.
>
> Congress can help stem the growing tide of foreign metal commodities by enacting reform in the Buy American Act during the current session. We respectfully ask your support and influence in bringing this matter to a vote and to passage.

Mr. STARR. I would like to make a suggestion to Congress, Mr. Yates. That is that aluminum pig be priced by the domestic producers at some realistic level. You will find—I know of not a pound of aluminum extrusions being imported from Europe. I know of sheet being imported. I know of primary metal being imported, but I don't know of a pound of aluminum extrusions being imported.

The reason is very elementary. The price of aluminum extrusions in this country is too low to be able to be met by a foreign shipper.

Mr. YATES. Do you do any exporting?

Mr. STARR. No, sir.

Mr. YATES. Do any of your members do any exporting?

Mr. STARR. Not that I know of, sir.

Mr. YATES. Is it because the price of primary is high?

Mr. STARR. The price of primary is too high in this country to be able to support an export operation. The price of primary in this country is high enough to serve as an umbrella over imports into this country by foreign producers of pig.

The price of primary is high enough to make the price of many fabricated articles high enough to make a price umbrella high enough to allow imports of these fabricated articles by foreign producers.

The single exception I know of is aluminum extrusions, and I doubt whether castings are coming in either, as others have testified today. But as far as I know, no aluminum extrusions are coming in. The price is just too cheap.

Mr. YATES. What is the price at which aluminum pig, which Michael Flynn bought from Norway, sold in Norway; do you know?

Mr. STARR. No, sir; I don't know offhand. I imagine it is at the prevailing European price.

Mr. YATES. How does that compare with the American price?

Mr. STARR. The prevailing European price is 23¼ cents a pound against 26 cents a pound American price.

Mr. YATES. On page 6 of your statement you say there is no possible cost justification for the 26-cent U.S. price.

In 1949, it cost, in material, power, and manufacturing costs, about 11 cents a pound to produce primary aluminum pig, which was sold for 16 cents in the United States.

Mr. STARR. Right.

Mr. YATES (continuing):

These costs are now about 15 cents a pound and primary aluminum pig sells for 26 cents a pound. Even if 1 cent a pound is added for U.S. freight, this price provides a margin of about 60 percent.

How do you know the cost that went into those statements?

Mr. STARR. I would say our primary source of information is the report of your committee, I think it was in 1956.

Mr. YATES. As I remember the report of our committee, the cost studies were taken from the decision in the antitrust proceedings against Alcoa.

Mr. STARR. Right.

Mr. YATES. Which indicated what the mill costs were for the domestic producers up to 1956. Where do you get your computations for the present time?

Mr. STARR. The 15 cents, I might say, comes two ways. One is an extension, bringing up to date the figures presented in your report.

Two, I don't know of an extruder—and probably this is true in a lot of the other areas of aluminum fabrication—who has not investigated the cost of primary pig, of making it himself or with some others. I think it is apparent that if this price squeeze is the case, as we have stated, one of the areas of relief is to make your own aluminum pig.

So practically every aluminum extruder, everyone I know, has at times investigated the cost of making aluminum pig, and in fact there is an aluminum extruder in Seattle, Wash., today who has a pot, he has a pot in which he is making aluminum.

I never heard of a one-pot pot line, but he has one, and he is, I imagine, buying power from his local power company. He is a very ingenious individual.

He has been in the business for quite a while, and I know he went to Europe to check into the means of making pig aluminum on a small-scale basis, as opposed to the much larger basis with which it is usually made.

Mr. YATES. Is this one of your members?

Mr. STARR. No; he is not a member. He is a member of the Window Association, but not a member of the Extruders Association, but he has an extrusion press. I mean he extrudes. He attends our meetings occasionally, but he has never joined.

Mr. YATES. He is not an unintegrated company?

Mr. STARR. I guess you might say so; right. He is not an unintegrated fabricator any more. He is integrated. I don't think though, the one pot makes nearly enough of his requirements.

I understand he gets about 3,000 pounds a day, say 100,000 pounds a month. He probably uses several times that quantity.

Mr. YATES. What does he do for his bauxite?

Mr. STARR. I imagine he buys alumina, maybe from Japan, like Harvey does. I don't know. It is available in the world market, so he can buy it at a price. I am sure his aluminum costs at least as much, probably a lot more than the market price. But he is, as I said, quite an ingenious individual.

The point was: All independents are anxious to make pig if they could. They can't because of the money and financing it takes. But the knowledge of what it costs to make pig is far from an occult secret to independent extruders.

Mr. YATES. Let's return to page 4 for a minute, where you indicate that there has been price increases in the various fab and semifab fields—increases of 36 percent, 30 percent, 33 percent—in every field except the extrusion field. Why has the extrusion field been singled out as you have indicated? Is there no competition in the other fields?

Mr. STARR. The position of the independent fabricator in the extruded field represents a much greater portion of the total production than is the case in any of the other fields in aluminum fabrication.

We have some figures here put out by the Aluminum Magnesium Division, going back a number of years, wherein they indicate the percentages of various forms of fabrication produced by independent fabricators in different areas of aluminum fabrication.

Mr. YATES. That would be an interesting survey. I had not seen that.

Mr. STARR. Now, just taking 1957, if I may, because since those years they prepared them in tonnages. But in 1957 they presented the history from 1950 to 1957.

In sheet and plate in 1957, the nonintegrated producer produced 10.1 percent of the total. In foil, 24.5 percent of the total. In wire and covered cable, 47.9 percent of the total. In bare cable, 39.3 percent of the total. In extrusions and drawn tube, 61 percent of the total.

And I might also add that in growth, in the percentage change from 1950 to 1957, the nonintegrated extruding percentage of the total extrusions increased 312 percent, whereas the others were—well, sheet was 194 percent, and the others were far less—120, 78, and 62 percent.

Mr. YATES. What conclusions do you draw from that?

Mr. STARR. Simply that the nonintegrated producers in the extrusion area were able to take a far larger portion of the total available extrusion volume in the years between 1950 and 1957, and that therefore the primary producers were not enjoying the benefits of the increase in extrusion volume to the same extent they were enjoying them in other areas of aluminum fabrication.

Mr. YATES. You have read what the figures were through 1957. Do you have a more recent statement?

Mr. STARR. Yes, sir; we do.

Mr. YATES. Taken from the Department of Commerce statistics?

Mr. STARR. Yes, sir; all from the Department of Commerce statistics.

From 1956 and 1957, the independent extruders had 61 percent of the total extrusion business. In 1958 it dropped to 55.5 percent and in 1959 it dropped to 54.4 percent.

Mr. YATES. Now, this is attributable to what—the increase in business in the field itself by the primary companies or through the pur-

chase of companies by merger or acquisition, or what? Do you know the reasons for the drop or for the increase by the primary producers?

Mr. STARR. There is some effect caused by absorption by prime producers of independents, or independents becoming prime producers, such as Harvey, Olin, Revere, and Anaconda.

However, the major part of this loss is simply due to the fact that the primary producers have squeezed the margin between the selling price of extrusions and the cost of pig to such a low level that in many cases the primary producer could take an order where the independent extruder could not afford to take the order without a major loss.

Mr. YATES. Is this based on fact? This is based on the operation of your own company?

Mr. STARR. No, sir. This is based on figures collected by the Aluminum Extruders Council as a result of surveys among the extruders.

In 1955 and 1956 we had a report compiled by Ernst & Ernst, entitled "Operation Ratio Report to the Aluminum Extruders Council," and for 1957 and 1958 we had a report prepared by Walter Gebhart Associates, the association's executive secretary.

In 1955 the extruders had a profit of 2.7 percent of sales; 1956, 2.2 percent; 1957, 1.8 percent; 1958, 3 percent.

Now, these were the reports that were filed.

I personally checked with a number of companies for 1959. We have not yet made a survey for 1959. I am sure the average is under two. Many companies have lost money in 1959.

These percentages of profit with respect to sales are less than one-half of the national average for manufacturing companies. In other words, the independent aluminum extrusion companies' average percentage of profit as a function of sales is less than half that enjoyed by manufacturing companies as a whole, or by any major subdivision such as consumer durables, fabricated metal products, or what-have-you.

Mr. YATES. What portion of that may be attributable to increased labor costs?

Mr. STARR. Well, all these companies suffered——

Mr. YATES. I mean in the chart you just read.

Mr. STARR. No more than is the case with other manufacturing companies. All manufacturing companies suffered, if you will, increased labor costs, and ended up with a profit percentage of the kind I indicated—more than twice that experienced by the independent extruders of aluminum.

Mr. YATES. The reason for my question was that your principal argument is the fact that the cost of primary aluminum has gone up, and, therefore, your profit potential—not potential, but your actual profit has been less as a result. I wonder whether or not the profit figures you read could have been attributable to rising labor costs.

Mr. STARR. I think it was, to some extent.

Mr. YATES. Is your primary cost labor or the price of raw material? I think that is a better way to put it.

Mr. STARR. Absolutely raw material. Now, you take an extrusion that sells for 40 cents a pound. Pig at 26 cents per pound comprises 65 percent of the selling price. In other words, our raw material cost at its cheapest form, pig at 26 cents a pound, is 65 percent of the

selling price. And within that balance, 35 percent of the selling price, we have to pay for our equipment, maintenance, supplies, other raw materials, labor, administrative, sales, and profit.

Mr. YATES. Mr. Derwinski?

Mr. DERWINSKI. On page 3, Mr. Starr, you gave us the same statistics you were just discussing with Mr. Yates; 1956, the nonintegrated extruders accounted for 61 percent of the gross shipments, and you are down to 54.4 in 1959. Later on you said that this squeeze that you are involved in dated back to 1951. What was the figure in 1951?

Mr. STARR. For the percentage of total extrusions extruded by the independent extruders?

Mr. DERWINSKI. Yes.

Mr. STARR. I have it here, sir. I don't have 1951. I have 1950 and 1952.

Mr. DERWINSKI. Well, what about 1950?

Mr. STARR. 1950 was 34.6 percent, and 1952 was 39.6 percent.

Mr. DERWINSKI. I thought we were working downward rather than upward.

Mr. STARR. You mean the percentage for the nonintegrated producers or the integrated producers?

Mr. DERWINSKI. The non.

Mr. STARR. 34.6 in 1950, 39.6 in 1952.

Mr. DERWINSKI. How did you reach 61 percent by 1956?

Mr. STARR. How?

Mr. DERWINSKI. Yes.

Mr. STARR. By working hard, I guess.

Mr. DERWINSKI. Well, all right. Then why didn't the same formula which brought you up from 34 percent of the gross shipments to 61 percent continue——

Mr. STARR. I see what you mean, sir. I will give you an example. We got our first extrusion press in 1951. Between the time we ordered the extrusion press and the time we received it, an interval of something like 11 months, billet, which we were using as a raw material at that time, went up 3 cents a pound, and extrusions went down 4 cents a pound. In other words, our margin between raw material and selling price of extrusions decreased 7 cents a pound.

Now, let's look at what happens to an extruder; how does he get in business, and what does he do?

In over 50 percent of the cases, an extruder got into business primarily because he integrated vertically, just as Michael Flynn did. We were making aluminum windows. We could save 7 cents a pound if we extruded our own requirements, as the price structure was at that time, so we ordered an extrusion press.

The next thing that happened, the production of this press was sufficient in one shift for our window requirements, so we said to ourselves, why not work it a second shift, and we will be able to ship that much more extrusions and be able to make more money, and we did.

Now, we were shipping extrusions to many good customers, and as their requirements increased to something like 200,000 or 300,000 pounds a month, they went through the same thing. In other words, they said, "We will order a press and in one shift extrude our captive requirements, making storm windows, or windows or chairs or trim, or what have you," and they did that, and then decided on a second

shift to sell extrusions. So what formerly was a good customer became a competitor. And this went on and on, and is a basic reason for the growth of the independent extruder.

It had an absolute economic justification in that he was making finished product cheaper as a result of having this extrusion press.

Now, there was another element that enforced this violent growth of the aluminum extrusion industry, the independent industry.

Beginning around 1947 or 1948, new extrusion equipment hit the market. It was what was called a small self-contained press. At that time, the main extrusion production facilities were those engendered by World War II, which was of an old German design, and incorporated very large presses with single sources of hydraulic power, and could not exist without a massing of these large presses, three or four or five. The typical plant had something like 15 large presses with a few hydraulic power units, each one servicing several presses.

When these new self-contained presses came out, they were made much smaller than the old ones, they operated at a far shorter cycle, which meant in effect that they made far more pounds of aluminum extrusions per hour, they were far cheaper to operate, required far less manpower, because of the automatic features on the presses, and of course they cost much less than these big monsters that were the rule until then. So that was another major reason why it was possible for people who used aluminum extrusions to get into the extrusion business. They were just on a different battlefield from the prime. They were on a far more economical battlefield. They could make their extrusions far more cheaply than was possible for a prime producer.

So we had these people who were manufacturing end items in a position to make their own extrusions at a far less cost than would be the case if they bought them on the open market.

It goes without saying that any time you can make your raw material—as long as it is feasible—you are really far ahead of the game. Far better scrap utilization, your quality restrictions are less onerous than would be the case if you were selling your extrusions and all that. So they were really able to pick up a lot as far as their extrusion costs were concerned.

Mr. DERWINSKI. That is all.

Thank you, Mr. Chairman.

Mr. YATES. Mr. Dalmas, do you have any questions?

Mr. DALMAS. I have none, Mr. Chairman.

Mr. YATES. Have you tried to buy ingot and pig at prices lower than the prevailing price? I know you have by going to Europe. But there are rumors around that pig and ingot are being sold, other than the hot metal contractors, at prices below the prevailing market price. Do you know of such instances?

Mr. STARR. Yes, sir. You see, we make billet. In other words, we buy pig and we make billet. Billet is a form of ingot, classified as an ingot, and is the final stage of the raw material for the extrusion process. There are a number of people who buy billets. Now, in the process of buying billets, you have to get rid of your self-generated scrap. If you make your billets, you remelt your own scrap. If you buy billets, you have to, as we say, and as Mr. Burton referred to this morning, toll your scrap, convert it to billets. Well, that presents an opportunity for, as we call them, deals.

Prices are paid for self-generated scrap which are far more than the economics of the process would justify. And in a sense we don't make what we used to make from our billet casting operation, because in comparison with our competition, the competition gets the benefits of these inordinately high prices for the self-generated scrap.

Also, there is a scrap schedule for self-generated scrap, and certain prices are allowed for each grade of scrap on that schedule. The presupposition is always that it was self-generated.

However, the primes have allowed people to buy scrap that was not self-generated, and then gave them a much higher price for it than it cost to buy this scrap on the open market. So that, in effect, the billet buyer was getting a subsidy in the form of a high price for scrap he purchased.

Mr. YATES. What about the question of buying pig at lower prices than prevailing market price? Other than through toll reconversion.

Mr. STARR. I know of no open-and-shut case where that is true. I know of no positive case.

Mr. YATES. Now, have you tried—have you explored the possibility of a hot-metal deal to solve your problem?

Mr. STARR. Oh, my, yes.

Mr. YATES. That is very expressive. Tell us the facts.

Mr. STARR. I shall, with pleasure.

I would like to just say one thing in order to clear something up before I relate our efforts, and that is this: If we had a hot-metal contract similar to those I read, which are Reynolds with respect to Ford and General Motors, in Lister Hill and Jones Mill and we had a plant adjacent to the potline plant, and we made our pig or billet over there, and shipped it to Philadelphia, where our plant is, we would end up with pig and billet more than 10 percent cheaper than the domestic published price for pig or billet.

Mr. YATES. Why?

Mr. STARR. Because the price for hot metal, as expressed in those contracts, is a real price advantage. I am just trying to put it in these terms in order to make it clear that after you are all done with the cost of freezing the metal and alloying it and transferring it and transporting it, it ends up—it would end up in Philadelphia at more than 10 percent under the published price if we had a contract identical to what Reynolds has extended to Ford and General Motors.

Mr. YATES. How do you arrive at that?

Mr. STARR. How did I arrive at it?

Mr. YATES. Yes. As I remember those contracts, there was a 10-percent differential.

Mr. STARR. I arrived at it by going through the fine print in the contracts you had presented in your——

Mr. YATES. Tell us how. That is what I am asking.

Mr. STARR. Well, the contract says you deduct so much for freight, you deduct so much for alloying materials. Then you deduct a certain percentage after that. And we deliver to this and this point, from there on you are responsible for it. I went through the detailed calculation involved by those costs, and ended up with a delivered cost in Philadelphia of 10 percent under the domestic price for pig and billet. The only thing I did not give effect to was those portions of the contract calling for the right of the automobile company to draw on the aluminum supply to the extent of their requirements, and the right of

Reynolds to receive orders for at least a certain percentage of the automobile company's requirements. I mean I couldn't give effect to those. I didn't know what they meant in dollars and cents. But other than those, I just followed the formula exactly as written in the appendixes to your report, and I came up with more than 10 percent less.

Mr. YATES. Would this be true of other members of your association?

Mr. STARR. Absolutely.

Now, Congressman, we try to get a——

Mr. YATES. Wait a minute. Let me ask another question. Is the sum total of all the billet purchased by your extruding association more than the amount that Reynolds supplies to General Motors or to Ford?

Mr. STARR. I would say the sum total of pig and billet is much more than they buy.

Mr. YATES. Why don't you take the suggestion of the committee in its first report and pool your needs and try to get a contract from Reynolds and from Alcoa, which would permit you to take advantage of the difference?

Mr. STARR. A hot-metal contract was not available to us, sir. We could have pooled to buy metal at the market price, which would have helped us, perhaps, had there been a period of shortage.

Mr. YATES. You say a hot-metal contract was not available to you. As I remember the testimony before the committee, I was under the impression that it was available to anybody who wanted hot metal.

Mr. STARR. Well, sir, we wrote to Reynolds Metal on October 29, 1958, not long after you had your hearing, and we asked them for a hot-metal contract. We got a reply, saying it was being looked into. We wrote again on a followup.

Mr. YATES. Give us the dates of those followups.

Mr. STARR. We first wrote October 29, 1958. We got a reply November 26, 1958.

We have not yet made a decision. We will keep your inquiry in mind as the matter is being considered.

That is signed by Ernest W. Shaw, regional general manager, southeastern region.

We wrote again December 23, 1958, reminding them of their letter of November 26, that we would appreciate hearing from them as soon as possible.

Reply, January 15, 1959:

Thank you for your letter of December 23. Matter is receiving continuing consideration.

Mr. YATES. Who signed that letter?

Mr. STARR. Ernest W. Shaw, vice president, same man, different title.

Mr. YATES. He had been promoted?

Mr. STARR. Yes, sir; he is doing good. I will make him president yet.

Mr. YATES. He must write a very effective letter.

Mr. STARR. January 16, 1959, we wrote:

I have your letter of January 15 with respect to molten metal. It seems likely that no decision will be made by your company in the near future and, of

course, we will have to guide ourselves accordingly. Please advise if we are not correct.

February 13, 1959, reply from Shaw, still vice president and regional general manager:

Replying to your letter of January 16, I am not able to say that it seems likely that no decision will be made by our company in the near future.

Mr. YATES. Was he able to say anything?

Mr. STARR. Well, I will read the rest.

With the exception of the automotive companies, no one seemed to have any interest in molten metal, only until recently. Your letter is one indication of customer interest and is naturally being considered along with other factors. I do not know when we will reach a decision, but I assure you that the matter is under consideration.

My next letter was to the Department of Justice enclosing copies of the correspondence on March 11.

Mr. YATES. Did you send a copy of that to Mr. Shaw?

Mr. STARR. Of the letter to the Department of Justice? No, sir.

And then I got a letter in reply from the Department of Justice on March 20 acknowledging receipt of the correspondence and advising that it has been referred by Justice to the Federal Trade Commission.

We checked verbally with both Justice and the Federal Trade Commission. As far as we know, nothing has happened as a result.

Mr. YATES. Well, was that a bona fide inquiry on your part for the hot metal?

Mr. STARR. Oh, my God. We would have given our right arm to be able to do it. We were subject to a price squeeze. If we could save 10 percent on the cost of the raw materials, that was several times the profit we were enjoying at that time.

Mr. YATES. Were you in a position to take enough metal to make the proposition attractive, both to yourselves and to Reynolds?

Mr. STARR. Well, here is what we said to them, sir:

We request that you extend a similar contract to ourselves, and such other responsible firms as may associate themselves with us for this purpose.

And that, of course, was expressly stated in order to make the proposition large enough to be equivalent to either of the automobile contracts which were in existence at the time.

Mr. YATES. As I remember the automobile contracts, one of them was in Lister Hill, Ala. Was the other one Massena, N.Y.?

Mr. STARR. I think there is a third one for Massena, if I recall right. And a fourth one for Alcoa, who until then claimed Reynolds was illegal in their hot metal contracts. But now Alcoa has a fourth one with General Motors in Indiana.

Mr. YATES. Off the record.

(Discussion off the record.)

Mr. YATES. On the record.

Now, you have not contacted Alcoa about the possibility of receiving a hot metal contract?

Mr. STARR. No, sir.

Mr. YATES. Have you contacted any other primary producer to find out whether you could get a hot metal contract from it?

Mr. STARR. No, sir. At the time we wrote, only Reynolds had hot metal contracts, as far as we knew. And since that time, we have not made any effort to contact any of the other firms.

Mr. YATES. So that in fact you did try to comply with the suggestion of the committee to pool your purchasing?

Mr. STARR. Yes, sir.

Mr. YATES. And it was rejected. Well, it hasn't been finally rejected yet.

Mr. STARR. It hasn't been finally rejected. But there was no improvement in the situation between the time we started and gave up writing the letters.

Mr. YATES. What was the date when you first contacted Reynolds?

Mr. STARR. October 29, 1958.

Mr. YATES. Do you ever use scrap as secondary metal?

Mr. STARR. Approximately 10 to 15 percent of the metal requirements are purchased in the form of scrap.

Mr. YATES. Is my memory correct in that extruders have to use virgin metal for most of their work?

Mr. STARR. We can't use a high percentage of scrap, other than self-generated scrap, because we are limited quite closely by the iron content of the extrusion. If we exceed something like one-fifth of 1 percent of iron, our extrusions suffer in quality. In the casting area, generally they can go much higher—half a percent, three-quarters, even 1 percent.

Mr. YATES. There is no likelihood of extruders being able to use the secondary scrap then?

Mr. STARR. We buy.

Mr. YATES. Fifteen percent?

Mr. STARR. About 15 percent.

Mr. YATES. Is that true of your other members?

Mr. STARR. Yes, in general. As an average, I would say, for those who cast their own billets, they would try to buy scrap. I imagine it is of the same order as we do, for the same reasons.

Mr. YATES. Is scrap available to you readily?

Mr. STARR. Most of the time scrap is available; yes, sir.

Mr. YATES. Are there any other questions?

Mr. DALMAS. I have a couple of questions, Mr. Chairman.

Mr. Starr, did you and the other members of your association increase prices along toward the end of 1959 after the increase in metal?

Mr. STARR. Pig went up at that time from 24.7 to 26.0 cents a pound. We published a revised pricelist increasing the prices of the extrusions. So did every other independent producer I know of. However, today the prices of extrusions are lower than they were before the price increase in pig.

Mr. DALMAS. How about windows and doors?

Mr. STARR. Windows and doors? Well, windows, I would say, are very nearly the same. Perhaps a slight increase. Now, I might add that the reason the extrusions did not increase in price is because two of the prime producers went around to preferred customers, meaning customers who bought interesting amounts of extrusions, and indicated that they would hold the price for the first quarter of 1960 before they increased extrusion prices in accordance with the pig increase which has happened, I think, December 18, 1959.

Mr. DALMAS. Well, I notice in the paper that about the end of the year that a good many of windowmakers did increase their prices as much as 10 percent.

Mr. STARR. That was, I think, put out by a Miami window manufacturer, was it not, sir?

Mr. DALMAS. Florida.

Mr. STARR. Florida, yes. And there was an effort at that time to do just that. You see, a number of Florida manufacturers had gone out of business, gone bankrupt. And there was need for an improvement in that particular situation down there. I won't say it affected the country as a whole. It was mostly a Florida situation.

Mr. DALMAS. How many extruders, independent extruders, are there in business at the present time?

Mr. STARR. I think about 120, sir.

Mr. DALMAS. About 120?

Mr. STARR. Yes, sir.

Mr. DALMAS. What is the price for secondary aluminum at the present time?

Mr. STARR. Do you mean scrap, sir?

Mr. DALMAS. I mean secondary ingot.

Mr. STARR. I am not familiar with that, because we never buy that material.

Mr. DALMAS. You spoke of a shipment of 500 tons of Norwegian aluminum to Miami, I believe it was, wasn't it?

Mr. STARR. It was aluminum which originated in the United States from a domestic producer, and it went to Europe, and came back, and was bought in Miami at a major saving over the regular domestic price for pig.

Mr. DALMAS. Did you mention what the ocean freight was?

Mr. STARR. The freight, as I understand, is something of the order of 1 cent a pound—possibly nine-tenths of a cent a pound, something of that order.

Mr. DALMAS. To make a round trip, it would cost about $40 a ton, then, wouldn't it?

Mr. STARR. I would say $35 to $40 a ton; yes, sir.

Mr. DALMAS. So take the domestic price of $520 a ton, and the market price in Europe of 22¼ cents, or $455 a ton——

Mr. STARR. 23¼ in Europe.

Mr. DALMAS. Well, I have heard 22¼. You say 23¼ or less. So I am taking the 22¼. That would leave a margin of $65. So that——

Mr. STARR. You have me lost; I am sorry.

Mr. DALMAS. Well, the point I am making is that if the price over there was 22¼, the difference would be $65, so they would make a round trip for $40, and still have $25 per ton left.

Mr. STARR. Well, the foreign price is 23¼, which is——

Mr. DALMAS. That would be—the difference, then, would be less.

Mr. STARR. It is $65.

Mr. DALMAS. We will leave that. I just wanted to find out about what the ocean freight was. I will make my own calculations later.

Now, you speak on page 4, the bottom of the page, "these prices are much lower than the generally published prices."

Mr. STARR. Yes, sir.

Mr. DALMAS. Now, all of the aluminum companies have a regular price book, which is changed periodically, and maybe day by day.

Now, are you saying to the subcommittee that the aluminum companies have two price books?

Mr. STARR. I have been told by a representative of the prime producers, who was a product manager, that his company had thousands of commodity price lists, covering thousands of different items. These are not listed in the regular price books which are issued to the trade. They are only available to particular industries, or particular companies. In other words, if you wanted to buy rerolled sheet, you would have to be a reroller, and you can buy rerolled sheet at a price considerably under the identical material which would apply if you were not a reroller. The difference might be 37 cents a pound if you were not a reroller, and 29 cents a pound if you were a reroller.

Mr. DALMAS. Well, are you implying that those prices are out of line with the regular published prices—that they are lower?

Mr. STARR. Yes, sir.

Mr. YATES. He isn't implying that. He is saying it.

Mr. DALMAS. Well——

Mr. YATES. You might want to say, How do you know this is a fact? Is this a fact?

Mr. STARR. Yes, sir, it is a fact. I would like to give a couple of instances of where and how it works.

There was a case of an extruder in Cincinnati, a small extruder, having only one press, who quoted a truck trailer manufacturer some reduced price for extrusions. This was 6063 extrusions. Alcoa heard about this quotation, and shortly thereafter issued a commodity price, meeting this particular competition of this particular extruder in this particular area to this particular customer, and issued that price on a nationwide basis to all truck trailer manufacturers, so that advantage was taken of a situation where one particular extruder, who was very small, who couldn't even satisfy the requirements of this particular truck trailer manufacturer—he cut the price and that was made a nationwide price cut, applying to every truck trailer manufacturer and affecting all segments of the aluminum extrusion industry.

Mr. DALMAS. I want to ask your interpretation of one thing, if I may, and that is in connection with the price squeeze. Now, you say that the primary producers have upped the price of pig and ingot, and either have not increased the price of semi-finished or finished products, or have actually reduced the price, and at the same time they are offering people in your situation the primary metal at a price that forces you to sell at a higher price than they sell their semifinished and finished products.

Now, my question is: In your interpretation, is that a price squeeze?

Mr. STARR. Well, if they cannot make money in the area that we have to make money in, and they control one of the bounds of this area, I would call it a price squeeze. We have to pay 26 cents a pound for pig. They don't. It cost them a lot less than that.

Mr. DALMAS. I think that is the point.

Now, suppose you are an integrated producer, like your friend out in Seattle, and were producing your own pig—then there wouldn't be any price squeeze at all, would there?

Mr. STARR. If extruders—or say the present independent extruders, were able to put up a potline of sufficient size and therefore consistent in economy of operation with the existing potlines of the existing prime producers, I would say there would be no price squeeze.

Mr. DALMAS. My only point here is to try to determine if we can through you and other witnesses learn what constitutes a price squeeze. I just am not certain that I see that situation as a price squeeze.

Mr. YATES. That particular item. Of course, he did testify in his earlier testimony as to the squeeze of the 6063 billet, for example, by comparison to the other items being sold in the aluminum industry.

Mr. DALMAS. I notice also in an issue of the Wall Street Journal that other companies have increased that 6063 grade, and 6463—I don't know what that is—either one of them, for that matter—up 0.8 cents a pound, from the previous price.

Mr. STARR. Well, those so-called published price increases have no effect whatever. There was no increase. Quite the contrary—mainly for the reason I gave you. Two of the prime producers made public the fact that they were not increasing extrusion prices for the first quarter of 1959.

Mr. DALMAS. That is all, thank you, Mr. Starr. Thank you, Mr. Chairman.

Mr. YATES. Mr. Multer?

Mr. MULTER. Certainly it is a price squeeze if the manufacturer subsidizes an extruder by selling it to him at a lesser price, if it is an integrated operation—if the manufacturer sells to his subsidiary company at a lesser price than he sells to somebody else, the subsidiary, in turn, can sell his ultimate produce for less than you can, isn't that so?

Mr. STARR. Yes, sir, he can.

Mr. MULTER. That is a price squeeze, isn't it?

Mr. STARR. Yes, sir.

Mr. MULTER. If it is not the price squeeze, it certainly is an element that enters into the price squeeze. The result is the same. It permits unfair competition so far as you are concerned.

Mr. STARR. That is very true, Congressman. We have, I think, a very clear case in history, and so analogous to our situation I think you can draw the conclusion the same thing will happen unless something is done.

Some of us may recall back in the 1920's there was an awful lot of steel rolling mills. These so-called independent rolling mills made profiles, just like extruders make profiles, and they used as a raw material peculiarly enough something called a billet, which was a small ingot. They often bought some scrap, rails or axles, and rolled this stuff out to merchant bars, or concrete reinforcing bars, small structurals, and angles. There were over a hundred of these companies. There were some around every major city in the country.

Today, I don't think there are a half dozen of them. And I think of those—of that half a dozen—they are all captive, making some highly special item for some manufacturer of finished goods. They have been squeezed out of the business by a history of high billet prices and high ingot prices, and low finished rolling prices. They lost their margin within which they could operate. In periods of shortness of steel, the raw material wasn't even made available to them, except at black-market prices. In periods of plentitude of steel, they had to pay the high price for the raw material and have a low price on their finished rolling product.

We can see only the identical thing, strictly analogous, happening to the aluminum extruders. And if history is any criterion whatever, we have our pages written for us, unless something is done.

Mr. MULTER. Have any of your members shown any unwillingness to submit the evidence and testify before grand juries or in courts as to these items that you refer to as free warehousing, advertising allowances, discriminatory financing?

Mr. STARR. Yes. While you were out at this session, I pointed out to your committee that we had submitted extreme detail in this complaint of February 25, 1958, to the Department of Justice. This detail was arrived at by circulating requests to the membership, and these requests came back filled out, citing case after case after case, by each of these members, in those three areas of free advertising, financing, and warehousing.

Mr. MULTER. And these members are willing to testify to that under oath and submit the documentary evidence to sustain the charge?

Mr. STARR. Yes, sir; I am certain they are, sir.

Mr. MULTER. To me it appears to be a violation of the law. I think you agree we don't need any amendment to the law. We need better prosecution of the law. Isn't that so?

Mr. STARR. I would be happy to think that would be the solution, because to implement new laws is going to be a time-consuming period. We are hurting. We would like to think that this committee, together with Justice and FTC, can find the solution to our problem.

Mr. MULTER. In other words, like some of the other witnesses we had here today, you are not recommending any change in the legislation. You are recommending there be better implementation by the administrative agencies?

Mr. STARR. Sir, I would like for your committee, if I may suggest it—ask Justice, ask FTC, if what we have stated is a violation. If it is, please prosecute it. If it is not, please give us the legislation. Because certainly the intent of Congress was that these be violations.

Mr. MULTER. Thank you.

Mr. YATES. It is 4:30. We had hoped that we could receive the testimony of Mr. Weder. I think Mr. Weder is in the room. We propose now to recess over until tomorrow morning at 10 o'clock, and at that time we will hear Mr. Weder, the gentlemen from the siding part of the aluminum industry, and Mr. Edwards, of the Department of Commerce.

Thank you, Mr. Starr, for a very thorough and very painstaking and very comprehensive statement.

(Whereupon, at 4:30 p.m., the committee recessed, to reconvene at 10 a.m., Tuesday, May 3, 1960.)

SMALL BUSINESS IN THE ALUMINUM INDUSTRY

TUESDAY, MAY 3, 1960

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE NO. 3, ON FOREIGN TRADE AND
FOREIGN AID OF THE SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1301, New House Office Building, Hon. Sidney R. Yates (chairman of the subcommittee), presiding.

Present: Representatives Yates and Multer.

Also present: Katherine C. Blackburn, analyst; Marie M. Stewart, clerk; and Victor P. Dalmas, adviser to minority members.

Mr. YATES. Good morning. The subcommittee will come to order.

We will hear now from Mr. E. H. Weder, of the Highland Supply Corp.

Mr. Weder, we are glad to see you and we will be very pleased to hear your statement in connection with your aluminum operation.

TESTIMONY OF E. H. WEDER, HIGHLAND SUPPLY CORP.

Mr. WEDER. We are a small firm engaged in the foil and film converting business. We are also doing some research and development work in the vacuum metallizing field.

Florist foil has been for many years, and still is, our major product. We have been and still are one of the leaders in this field. Our volume of business runs slightly over $1 million per year and we employ less than 100 people, but we are one of the major firms in the town in which we are located.

Big business in the form of Reynolds Metals Co., Reynolds Tobacco Co., and Kaiser Aluminum is now in the process of forcing us to the wall, not by superior ability or efficiency, but because they are selling florist foil under the cost of production.

This has been proven by the Federal Trade Commission case against Reynolds Metals Co. Their violation in this case was referred to by the attorney for the FTC as the most flagrant violation ever to come to his attention.

In this case, the examiner rendered a decision ordering Reynolds Metals Co. out of the florist foil business.

Reynolds appealed this decision to the full Commission and the full Commission upheld the decision of the examiner. The decision of the examiner was handed down almost 2 years ago, but Reynolds is still in the business, using business tactics just as bad, and in some cases worse than before.

Recently, a representative sent out from the main office of Reynolds called on me and advised me that it is their plan in this case to stall as long as is possible and use every possible means to appeal and delay final decision in this case.

While many patterns and types of florist foil have been put on the market, a 20-inch by 50-foot roll of 0.00065 colored unembossed foil is the largest seller and may be pretty well considered the basic item.

Next to that in volume and importance is the 20-inch by 50-foot roll of 0.00065 colored and embossed florist foil. These are the two items we will concern ourselves with in this statement and they will be referred to hereinafter in this statement as a roll of plain florist foil and a roll of embossed florist foil, respectively.

Almost 10 years ago our pricing policy was badly disrupted by imported rolls of florist foil coming into the country from Austria at a price much lower than ours.

Our price at that time was $1 per roll of plain florist foil and $1.10 per roll of embossed florist foil.

The Austrian product sold at 52 and 62 cents per roll, respectively. Sometime later, the Austrian price was raised to 65 and 75 cents.

Still later, Italian foil started coming into the country at about the same prices. We, in turn, lowered our prices as much as we could afford, to 85 cents on the plain and 95 cents on the embossed.

Under this situation, we were able to pretty well maintain our volume and continued to make a profit even though a difficult competitive condition was created and we lost some accounts.

A bit more than 3 years ago, Reynolds Metals Co. entered the florist foil field by taking over our largest competitor, Arrow Brands, and shortly after that, they drastically reduced prices.

These reduced prices went into effect in the fall of 1957 and were in some cases under the import prices. While we had not been compelled to meet the import prices, we were forced to either meet the Reynolds price or lose our accounts.

Reynolds reduced the price to 70 cents per roll on the plain with some sales made as low as 64 cents.

We met the 70-cent price even though it meant losing money. We never did meet the 64-cent price.

Incidentally, even though we did meet the 70-cent price, it was impossible for us to match their intensified sales and advertising programs.

Later, the price was raised to 75 cents which is the present price. A quick price calculation will show that 75 cents is still a losing figure.

In the meantime, as of the first of 1959, the Reynolds Tobacco Co. under the name of Archer Aluminum, entered the florist foil field.

At that time Reynolds Metals had increased their price to 85 cents and we had been most happy to follow them in this badly needed price increase.

Reynolds Tobacco entered the market at the old price of 75 cents per roll and by the time we awakened to what was taking place, they had contacted the entire trade and grabbed off a considerable portion of the business at their lower price.

In a matter of approximately 2 weeks, they had contacted the trade over the entire country. It has been said that they have approximately 1,000 salesmen. We have no way of knowing whether or not this is

correct. If so, they would have more salesmen than there are wholesale florist supply accounts.

In any case, we lost a considerable amount of business and were forced back to the 75-cent price immediately.

Reynolds Tobacco has, in many cases, proven even worse competitors than Reynolds Metals.

On their August 1, 1959 price list they show the following—Terms: Net cash 30 days from date of invoice during those months not included in the following special seasonal term datings. All shipments and invoicing to the florist trade made during the months of January, February, and March will carry special seasonal terms of "Net 30 days as of April 10."

Also, all such shipments and invoices made during the months of August, September, October, and November will have special seasonal terms of net 30 days as of December 10.

In addition, they allow full freight on shipments of 100 rolls or more which would amount to slightly less than 100 pounds.

Premium freight rates would apply on most shipments of that size also.

Previous to this, it has not been the custom to offer seasonal terms in this business. Our terms are and have been for a long time, net 30 days from date of invoice and in order to avoid paying premium rates on freight, we allow freight only on minimum shipments of 200 pounds or more.

It is impossible for us to carry our accounts for 5 or 6 months and so it is impossible for us to meet this type of competition.

As of the first of 1960, Kaiser Aluminum has entered the florist foil field. They did this, even though they had made a survey of the field and were aware of the limited potential volume; that prices were under their normal list prices and that Reynolds Metals Co. had been cited for unfair trade practices in this field.

Now the question arises as to why have these firms entered the florist foil field? It cannot be because of the potential large volume of business because it has been estimated by the best authorities in the field that the volume would not exceed 2 million pounds per year which can hardly be enough potential to interest a big aluminum producer.

It cannot be because of the large margin of profit involved as, according to their list prices to other trade, the colored foil on one roll of florist foil would be priced at approximately $0.962 which, adding 6 cents per, roll for put up, which is the approximate cost, would add up to $1.022 in minimum quantities of 30,000 pounds, yet here they are selling it at 75 cents and giving up to 6 months to pay for it to the wholesale florist supply house, and in less than 100-pound quantities.

We have established that they could not have entered the field because of the volume involved; nor because of the potential profit, and it is not a prestige item, so there must have been another reason.

In our opinion, Reynolds Metals Co. entered the field with the idea of taking over the entire volume and eventually making a good profit. This, in our opinion, was pretty well established by the FTC case against them.

Failing in this, and because of the possible far-reaching effects of the FTC ruling against them as to how the conduct of big business

might be affected by that ruling in future acquisition of small business, it is our opinion that they were able to induce Reynolds Tobacco and Kaiser Aluminum to enter the florist foil field in order to strengthen their case in an appeal of the FTC ruling.

We believe this opinion is supported by the following quote taken from an article in the Wall Street Journal of February 8, 1960, covering Reynolds Metals appeal to the full FTC.

"Mr. Margraf, the Reynolds attorney, in his statement challenged this finding. 'We know of no company forced out of business by the acquisition,' he declared. He added, 'indeed, two new companies have entered the field, a recent one being a major primary aluminum producer.'"

Mr. Margraf may have been correct in that he knew of no company having been forced out of business because of Reynolds Metals entry into the florist foil field by the purchase of Arrow Brands, but he certainly would not have had to look far to find a good number who had been forced out of the florist foil business and we would have no difficulty in naming a dozen, or more.

Until after the entry of Reynolds Metal Co. into the field, we had, with a few small exceptions, purchased all of our foil from domestic producers but because of the competitive situation created by them, we have since been forced to import our foil. Even with the lower cost import foil, we cannot profitably meet present competition.

During the season just ending, Reynolds Metals tactics have, in some cases, been worse than ever. They have offered phony closeouts and used other devices to further disrupt the market and confound competition.

This season they offered a closeout, obviously phony, of embossed florist foil at 70 cents; regular price is 85 cents per roll.

We have tried to get the cooperation of domestic producers for years. Their prices have been the same and gone up or down the same amounts at the same or practically the same time.

Incidentally, during the same period that mill prices on aluminum foil have gone up more than 40 percent, the price of florist foil has declined more than 25 percent.

To sum up, the florist foil industry was built up by small independent firms. Many firms were involved, all small, but I personally, from the start on and later Highland Supply Corp., have been a major factor in building up that industry.

The trend of prices of florist foil have been down in spite of the fact that domestic producers of raw foil have steadily increased their prices during the same period.

Since the entry of Reynolds Metals Co. and Reynolds Tobacco Co. into the florist foil field, those prices to the florist jobber have been forced still lower by them; this, in spite of the fact that the same is not true about any other foil produced by them for any other trade, nor is it true of their prices to the independent florist foil converter or other foil converters; this, even though in the case of Reynolds Metals Co. it has been proven they have sustained an actual loss in their florist foil operations.

Most of the independent florist foil producers have been forced out of the business and so very few of them are now left. While the advent of low-priced Austrian and Italian foil created a very diffi-

cult competitive condition, we always operated at a profit until the entry of Reynolds into the field.

As we all know, there has been no variation in raw or converted foil prices between Alcoa, Kaiser, Reynolds Metals, Reynolds Tobacco, Cochran Foil, or other domestic foil producers. For years, their prices have been the same and have gone up or down at practically the same time and the price story has been the same for all of them.

During the past 10 years, those prices have increased greatly. Offhand, I believe the increase on .00065 foil during that period has been approximately 40 percent. During the same period, there has been a decline in florist foil prices of, in some cases, more than 25 percent.

By no stretch of the imagination can the wholesale florist supply house be considered a foil converter so his price should be based on the list price.

All foil producers list prices on .00065 foil in minimum quantities of 30,000 pounds is $0.768 per pound; the coloring list price per pound in the same quantity bracket is $0.435 which would total $1.185 per pound for the colored stock.

The list for smaller quantities is higher. There is approximately eight-tenths of a pound in a roll of florist foil or $0.962 worth of colored foil per roll. The core, labor, and wrapper for this roll will cost another 6 cents which would bring the cost of that roll to $1.022 and this is based on the 30,000-pound quantity list price. Yet, this roll is presently being sold by some of these same producers—Reynolds Metals and Reynolds Tobacco and Kaiser in any quantity for 75 cents and, in the case of Reynolds Tobacco, delivered to the customer in lots of 100 or more rolls, freight prepaid. Extra sales, advertising, and other costs have not even been considered.

Reynolds Metals' net income last year was in excess of $37 million; that of Reynolds Tobacco was approximately double that amount.

Our total volume in all products was slightly over $1 million, less than half of which was florist foil, but there were no profits.

We can readily see that those companies are in dire need of what little volume we have, particularly in view of the fact that if they were successful in getting all of the florist foil business, it could not total more than $2 million in gross volume.

Last fall, we introduced a new florist foil product in an effort to secure an item on which we could make some profit. It is polyethylene laminated to aluminum foil and we called it "poly foil."

To advertise this, we had a full page insert of the material put in three of the trade journals, with normal ads put in a few others.

At the beginning of this year, Reynolds Metals came out with an imitation of the product, putting three full-page inserts with five additional full pages of advertising in each of five trade journals.

In addition, they sent samples of the material to 25,000 retail florists with much additional advertising going to the wholesale florist supply houses.

In this advertising they claimed to be the creators of the item and that it was stronger than any other pot wrap on the market. Both claims are false.

These methods can, in the end if unchecked, only result in the destruction of all small business. And once small business has disappeared, the end of our free enterprise system cannot be far behind.

In fact, it will have already disappeared and with it will go individual freedom.

We have been up against this type of thing before in the cellophane printing business, but it was not quite as brazen and flagrant as this situation, but it was the same story of big business being willing to lose money on one product for awhile in order to run out competition, while in the meantime they are still operating at a profit secured from other products and other business interests.

As small business, we ask no special favors or treatment from Government. We believe all business should be able to stand on its own feet.

We do ask that big business not be permitted to use their colossal financial and other powers to crush small business by selling under cost and other unethical methods.

Many of these big firms have, to a great extent, been built up by Government subsidies of various kinds such as Government orders, loans, research and development contracts, purchase of Government plants and equipment at a fraction of their cost, fast tax writeoffs, and other methods.

Reynolds Metals Co. is one of these firms and Kaiser Aluminum is another. We cannot help but feel that we paid taxes to help build up their power and that now that power is being used to crush us.

If such subsidies are necessary, small business should share in them equally and not just receive the crumbs which big business chooses to let trickle down to them.

A law with stiff penalties should be passed and strictly enforced which would prevent selling under cost in order to put competitors out of business.

A law should also be passed and enforced preventing the "bigs" from delaying and appealing a case indefinitely such as the FTC decision against Reynolds Metals Co. in order to prevent long delay in complying with such ruling as Reynolds Metals Co. is now in the process of doing.

They have already now delayed almost 2 years and their representative has told me that they plan to use every method at their disposal to delay as much longer as possible. In the meantime, their competition is being driven to the wall.

Some method should also be found to prevent other big firms from trying to help a guilty firm fight their case, either directly or indirectly. I am now referring to the help being given to Reynolds Metals Co. by Reynolds Tobacco Co. and Kaiser Aluminum. It probably would be impossible to prove collusion in this case, but we are convinced it exists. There must be a motive for every action and for their action in this case; we can find no other motive for their entering the florist foil field.

In closing, we would like to say that we have not and have never had any Government contracts, loans, fast tax writeoffs, or subsidies of any kind from the Government. For our size, I believe we have done as much research and development work as any other firm; some of the work done could be of great value to industry and country.

That finishes my written statement. I would like to add here though, that nothing I have said in this statement should be construed as indicating that I am or we are against big business as such.

We recognize the necessity of big business. We have worked in close harmony with many big business firms for many years and are doing so at the present time.

If big business operates correctly, they can be beneficial to small business and are so in many cases. So it isn't an indictment of big business as such at all. It is simply the misuse of the power of big business and this terrific accelerated rate of acquisition of other companies which has been going on for a long time but has been speeded up greatly in the past few years.

Many of these companies are getting so big and powerful and cover a whole range of businesses that they are practically—well, a terrific power unto themselves.

Mr. YATES. Thank you very much, Mr. Weder, for your very fine statement.

How many companies are there in the florist foil field?

Mr. WEDER. As of now, there are what I would call two independents. That would be the Jacobson Co. in Massachusetts and ourselves.

There are two Reynolds companies—Reynolds Metals and Reynolds Tobacco and Kaiser Aluminum. Then we have some import firms.

There are a few who have been practically driven out who sell some florist foil such as the H. D. Catty Corp., but they could hardly be considered as being in the business.

Mr. YATES. You do anything else besides sell foil and convert film?

Mr. WEDER. Yes, we do quite a number of operations. We are general converters in the packaging field. We do printing of films and foils. We do laminating and embossing and coloring of materials.

Mr. YATES. Well, is it the other parts of your business that enable you to keep going while the cut rate competition exists?

Mr. WEDER. Yes.

Mr. YATES. Where do you get your foil? Do you still import it?

Mr. WEDER. We are buying our foil at the present time primarily from Germany.

Mr. YATES. Is it cheaper in Germany?

Mr. WEDER. Yes.

Mr. YATES. How much cheaper is it?

Mr. WEDER. Well, I can't say just offhand. I would say close to 20 percent, somewhere in that area.

Mr. YATES. Twenty percent cheaper than in this country?

Mr. WEDER. Yes. I would have to figure it to be exact, but somewhere in that area.

Mr. YATES. How does florist foil differ from other foil?

Mr. WEDER. Actually, florist foil is other foil. I mean florist foil has been developed as a product of its own by the basis of conversion and type of put-up and sales to a certain trade.

However, 0.00065 foil which is primarily used for florist foil is occasionally used for other purposes. For instance, some of it, I think, is used in the household foil field.

Mr. YATES. I know we use foil around our house for putting things into the refrigerator. Does that differ in any respect from your florist foil?

Mr. WEDER. That is supposed to be 0.00070 in gage; however, some of it is 0.00065.

Mr. YATES. And you print on that and that is what distinguishes it?

Mr. WEDER. Not entirely, Mr. Yates.

Mr. YATES. Is it the size of the gage that determines it?

Mr. WEDER. It is the gage, type of processing and type of put-up. In other words, you have in florist foil a standard roll of material 20 inches by 50 feet. It is the only trade that really uses that type of thing in any volume.

Mr. YATES. Was Reynolds Tobacco Co. in this field before you became involved in your litigation with Reynolds Metals Co.?

Mr. WEDER. No. Reynolds Tobacco entered the field the first part of 1959.

Mr. YATES. You know whether they are engaged in any other activity; that is, aluminum activity, other than the sale of florist foil?

Mr. WEDER. Previous to that?

Mr. YATES. Now.

Mr. WEDER. They sell general foils.

Mr. YATES. They sell other things than foil of an aluminum nature?

Mr. WEDER. Not that I know of. I don't know of them selling any sheet, but they do sell foil to the converting trade where they can sell it and they also sell other types of converted foil. For instance, they sell laminated foil, sell to the beer-labeling trade, printing trade for beer labels.

Mr. YATES. Mr. Multer?

Mr. MULTER. Where did the Reynolds Tobacco Co. get their foil?

Mr. WEDER. They roll it themselves.

Mr. MULTER. Where do they get their raw product?

Mr. WEDER. I don't know the answer to that. They probably would either import it or buy it from some of the other primary producers. I don't think they produce it themselves.

Mr. MULTER. Well, originally Reynolds Tobacco Co. was just in the tobacco business.

Mr. WEDER. No.

Mr. MULTER. And they didn't make their boxes, did they? They didn't make their other containers originally, did they? Didn't they just make the tobacco products?

Mr. WEDER. I don't know about that.

Mr. MULTER. Did they make their containers also?

Mr. WEDER. I don't know anything about their containers, but my understanding of the history of Reynolds Metals and Reynolds Tobacco is that they are basically the same family; that they were originally together; that they went into the foil business; produced foil for their own use; that later on, one portion split off into another and former Reynolds Metal Co. and the original group still stayed in the tobacco business.

I understand that they continued to roll a portion of their own foil. In other words, they continued to roll some foil for their own requirements and some years ago, they added some considerable amount of additional equipment and bought out at least one firm that I know of in the aluminum foil converting field. That was Driscoll down at Winston Salem, N.C., and as I say, expanded their foil production and also went into the foil converting for sale to the other trade. I don't know how long ago, but I should say this was 6, 7, or 8 years ago.

Mr. YATES. They make their own foil?

Mr. WEDER. They make at least a portion of it and they are out into the market selling other foils, yes. They called on us probably for the last about 5 years ago. They are not calling there any more.

Mr. MULTER. Are there any interlocking directors between Reynolds Metal and Reynolds Tobacco?

Mr. WEDER. Not that I know of. One other point of connection that I might make and that is that the man that Reynolds Tobacco has in there handling their florist foil division, I understand he has charge of their division, was a man who was with Arrow Brands who, of course, is Reynolds Metals now and when he left Arrow Brands and went with—and I understand this man's name is Kessman—he is their florist foil man.

Mr. MULTER. Now, Mr. Weder, I notice, unlike some of the other witnesses, you suggest we need additional legislation.

You suggest a law with stiff penalties and a law enforcing or preventing the "bigs" from delaying and appealing their cases indefinitely.

I think you recall, and it wasn't so long ago, that Congress did stiffen the penalties for antitrust violations. There was imposed a $50,000 fine for each violation. After trial in a criminal court, if the grand jury indicts, the corporation may be fined and the individuals running the corporation may be sentenced to jail for violations.

Do you think that law needs any stiffening or does it really need better enforcement?

Mr. WEDER. I didn't mean to be presumptuous there and I am not familiar with all of the legislation.

I may be entirely wrong about this, but I do feel that there is something wrong; that we either need a different law or we need better enforcement or something.

In other words, I feel that there is something wrong as in this Reynolds Metals Co. case dragging this thing on for an indefinite length of time and in the meantime, the parties who are being hurt by the thing are being forced out of business.

In other words, let's assume that they can carry this case on for 2 or 3 years and let's assume that we can't carry the load that long. We are out of business after it is finally enforced, and what good is it to us?

Mr. MULTER. You wouldn't suggest we enact a special law to cover this case?

Mr. WEDER. Not at all.

Mr. MULTER. It might just come back and hit you if you happen to be before a court a long time and thought you needed a long time and you happened to get before a particular judge who played along with you and gave you indefinite adjournment.

We can't write a law to cover that situation. It is just bad enforcement, bad administration of the law. We don't write a law or change a law because of a bad case, and we shouldn't. Frankly, from your statement, if it is true, I venture an opinion that you have about the best triple damage suit I have ever heard about and you might be able to make more on your triple damage suit if these facts are true than you have been making on the operation of your company in many a year.

Mr. Yates' suggests that they take 10 years. It is quite true with all their money and powerful legal talent that they will give you a run for your money, but if what you say is true, it certainly requires a little speed on the part of the Federal Trade Commission; requires some action by the Department of Justice, and maybe a triple damage suit which is provided for in the law for yourself.

Thank you Mr. Chairman.

Mr. YATES. Mr. Dalmas?

Mr. DALMAS. No questions.

Mr. YATES. I want to say that I also sit on the Appropriations Committee that supervises the appropriation of funds for the Federal Trade Commission and one of the subjects which we went into quite thoroughly was the question of the length of the proceedings that take place before the Federal Trade Commission.

The contested cases involving complicated economic and legal questions are always longer and we push them year by year to try to find some short cut to this because we know the competitive disadvantage; the complaints are frequently in when they bring the cases.

I don't know quite how we can shorten it. The respondents are always to have an opportunity to present their side of the story. We do hope, however, that the cases will be disposed of with a much greater degree of dispatch without undue continuances so that the rights of those who have a justifiable complaint are protected.

Of course, they are entitled to take their case to the courts to have the courts review the question as to whether or not the Commission acted in accordance with the law and the facts, and that is our system of justice. There isn't anything we can do about that except hope the courts will speed up those cases also.

At some time I suppose some good lawyers will go into the question of how to speed up antitrust cases and cases before the Federal Trade Commission because competitive combats do exist in our society and do require protection for the small business people and I must say I am sympathetic to your point of view. But I don't know quite what can be done to speed up matters of this kind.

We are grateful to you for coming in and telling your story. We do want to know all aspects of the aluminum business.

This is the first time we have heard a complaint actually on improper competitive conditions in the foil aspect of the aluminum industry.

The committee will give very serious consideration to your testimoney. Again, we are grateful to you for coming in.

Thank you.

Mr. WEDER. Could I just answer Mr. Multer?

Mr. YATES. You certainly may.

Mr. WEDER. First, I would like to say I didn't mean to be presumptuous in recommending legislation.

Mr. MULTER. It is your privilege, if not your duty, as a citizen to come before us. That is why we conduct these hearings. I didn't mean to belittle what you said. I am looking for guidance as is the rest of the committee and if you can point to a loophole that we have overlooked and can suggest how we can plug it up, we will be the first to recommend it.

Mr. WEDER. I realize we are not important but I think it is a very vital issue. What affects us here is affecting thousands of other people in many, many different lines of business.

Neither did I intend to criticize the Federal Trade Commission. I think the Federal Trade Commission has done a good job in this case and I would like to say that I understand this has cleared the Federal Trade Commission entirely. It has been appealed to the full Commission. The full Commission has upheld the examiner's ruling and they asked for a rehearing. That has been turned down.

I understand that now it is being taken through the courts. You know this can drag on for a long time.

Mr. YATES. We appreciate your presentation. We agree with you that Reynolds Metals and Reynolds Tobacco, the large companies, are entitled to engage in business just as small businesses are.

We are interested in having a fair and free type of competitive society in which all members can participate and exist.

We hope that you can work out your difficulties. We will consider everything that you have said. Thank you again for coming in.

Is Mr. Domar here?

TESTIMONY OF ROBERT A. DOMAR, VICE PRESIDENT, DOMAR U.S. ALUMINUM SIDING CO., FRANKLIN PARK, ILL.

Mr. YATES. Mr. Domar, you are appearing pursuant to a subpena, are you not?

Mr. DOMAR. Yes, sir.

Mr. YATES. We are interested in finding out about your doing business in the siding part of the aluminum industry. Can you tell us about what's going on in that part of the industry now?

Mr. DOMAR. Well, I came rather unprepared. I knew about this only yesterday, but basically, the industry in general, in the last 5 years has grown tremendously.

Last year, we enjoyed a growth rate of about 43 percent, worked very closely with Reynolds, Kaiser, and Alcoa, and had definite statements from them that their programs of merchandising and general promotion in aluminum in the residential field would aid our expansion and our profits.

Well, due to the expansion that we have enjoyed and the acceptance generally, that is nationally, of the products that we make, we had planned a general expansion program, building capital, equipment, and so forth.

In the last several years, there has been a tremendous growth of other manufacturers, but we have more or less a unique setup at U.S. Aluminum Siding. We are not integrated. We make solely aluminum siding. It is sold as such only with our own merchandising programs.

All of a sudden, Alcoa came in, after repeated denials, as a producer of this same product.

Mr. YATES. What do you mean by repeated denials?

Mr. DOMAR. Well, we are small business. When you go into an expansion program in this industry, you are talking about an expenditure of a minimum of $1 million.

To take that kind of a burden, you have to have some assurance of sales. Rumor spread around—and if you believed in every rumor you heard you would go crazy—but I immediately called Alcoa, the Chicago office, and I called Pittsburgh. They denied their intent to go

into it; that their promotion was geared to let's say help us increase volume nationally.

I was dealing with National Homes, trying to get our product included in this new line as were the other independent manufacturers.

Mr. YATES. What date did all this take place?

Mr. DOMAR. I think it commenced about a year ago. The people at National Homes are a name brand outfit—in other words, they go for big names, finally found out that Alcoa had entered that picture, having the material made on a contract basis.

Mr. YATES. What do you mean when you say "entered that picture"?

Mr. DOMAR. Well, they went in as did Reynolds and Kaiser on a direct quotation of aluminum products.

Mr. YATES. They were competing with you for the business of National Homes?

Mr. DOMAR. Yes. If it were a straight dollar, across-the-board even money deal, I think we would have had a chance, but their fully integrated system, it was out of the question. We could not meet their price.

At that time we were selling for $24 on the market and the story—I can't verify this—was that National bought it at $19.75 or some such figure as that per square. I can't buy the metal alone for that price. The current price as of today is $0.378 per pound; 45 pounds of metal plus the painted strip price.

My metal alone costs me $22.70 per square.

Mr. YATES. Was this the price at the time that National Homes was given the other price by Alcoa?

Mr. DOMAR. That, I couldn't say. The price at that time varied. I think it was $24 a square at that time where we could have enjoyed a profit selling at the $24. It has gradually dropped; went down there one time to $21.95. Now it's back up to $22.95.

We have stopped our expansion program.

Mr. YATES. Let me find out the nature of the business that you are engaged in. What is it that you do specifically? Do you buy siding?

Mr. DOMAR. No, we buy coiled sheet, coiled aluminum sheet. We did buy at one time from Alcoa.

Mr. YATES. How long have you been in business?

Mr. DOMAR. The company is about 10 years old.

Mr. YATES. Have you been affiliated with the company all that time?

Mr. DOMAR. No, no, just the last 3 years. I was with Reynolds Metals before.

Mr. YATES. You were with Reynolds before this?

Mr. DOMAR. Yes.

Mr. YATES. In which division?

Mr. DOMAR. Building products sales.

Mr. YATES. And the company that you are with now is in that business too?

Mr. DOMAR. Just in the siding business.

Mr. YATES. Just in the siding business?

Mr. DOMAR. Just in the siding business.

Mr. YATES. Did Reynolds sell siding?

Mr. DOMAR. No, sir.

Mr. YATES. And you went with the company 3 years ago and at that time was Alcoa in the siding business?

Mr. DOMAR. No, sir.

Mr. YATES. How many companies were in the siding business?
Mr. DOMAR. At that time?
Mr. YATES. Yes.
Mr. DOMAR. Three years ago, maybe at the top there were 10.
Mr. YATES. Ten companies?
Mr. DOMAR. If there was that many.
Mr. YATES. Do you know the names?
Mr. DOMAR. The biggest was Alside, then Alsco, Lifetime, Consolidated which is Rexallum owned, United States Aluminum, Altex, Life Aluminum. That's all I can remember.
Mr. YATES. If you remember the other names you can supply those for the record.
All of these companies were engaged in purchasing coil for the making of siding?
Mr. DOMAR. That is correct, sir.
Mr. YATES. From whom did they buy their coil?
Mr. DOMAR. Primarily Alcoa, Reynolds, and Kaiser.
Mr. YATES. All of the Big Three were in the coil-producing business?
Mr. DOMAR. At that time.
Mr. YATES. Were any of them in the business of selling siding at that time?
Mr. DOMAR. No, sir.
Mr. YATES. When did Alcoa go into the business of selling siding?
Mr. DOMAR. Last year. They did it originally on a contract basis to National Homes and then went directly into a full announcement through the Wall Street Journal toward the end of last year, 1959.
Mr. YATES. They announced they were going into the business of selling siding?
Mr. DOMAR. That's right and manufacturing it as their own merchandizing product.
Mr. YATES. And manufacturing as well, the manufacturing and selling of it?
Mr. DOMAR. Yes, sir.
Mr. YATES. What about Reynolds and Kaiser?
Mr. DOMAR. Reynolds and Kaiser currently have strongly denied their willingness to enter into the field. They have been cooperative. However, they have flatly stated in my office and in their offices in Oakland and Richmond, respectively, that with Alcoa's penetration into the business and their tremendous wealth and the ability for their promotional programs, plus a guaranteed profit method of selling to wholesalers which we cannot do—if their penetration into the market is such that our volume drops, Reynolds and Kaiser naturally will have to go into this in order to protect their position in the industry.
Mr. YATES. Are any of the other primary manufacturers of aluminum in the coil business?
Mr. DOMAR. Oh, yes, since that time, Olin Mathieson has become a factor. Revere is growing. Then there are several reroll mills that had attempted to get into it, but now I understand from their representatives that the margin that they buy reroll coil for and their conversion to siding sheet makes it pretty rough for them to be in the picture.
Mr. YATES. Which are these companies?
Mr. DOMAR. Quaker State and Fairmont Aluminum.

Mr. YATES. Do you know where they are located?

Mr. DOMAR. Quaker is in Pennsylvania, I think. Fairmont is in West Virginia.

Mr. YATES. You stated that you had or your company had envisioned undertaking a $1 million expansion program and that this was pursuant to a representation on the part of Alcoa that it was not going into the business.

Mr. DOMAR. Right.

Mr. YATES. Did you actually engage in such a conversation with a representative of Alcoa?

Mr. DOMAR. Oh, yes, many times. We bought from Alcoa—well, when I joined the company 3 years ago we were buying approximately 50 percent of our volume from Alcoa.

Mr. YATES. Who did you buy the other 50 percent from?

Mr. DOMAR. Reynolds and Kaiser. Then gradually, we dropped down from Alcoa because of their seeming uninterest in the siding field. They were not competitive with the market. They didn't seem to have the desire to go along and become merely a supplier of coil.

Now I am assuming at this point that something just didn't work right.

Mr. YATES. Well, we don't want any assumptions. We want facts.

Mr. DOMAR. I realize that.

Mr. YATES. What were you paying for your coil 3 years ago; do you remember?

Mr. DOMAR. There have been so many changes in aluminum pricing. I think it was $0.395. I am not sure.

Mr. YATES. I assume you can get that figure. Was there any identification for the coil other than coil? (See bottom p. 95.)

Mr. DOMAR. Yes.

Mr. YATES. What coil do you use for the manufacturing of siding for homes?

Mr. DOMAR. 3003 siding coil.

Mr. YATES. 3003 siding what?

Mr. DOMAR. Coil.

Mr. YATES. And you bought that, 50 percent from Alcoa and the other 50 percent from Reynolds and Kaiser?

Mr. DOMAR. Right.

Mr. YATES. You were going to expand your business?

Mr. DOMAR. Right.

Mr. YATES. Then when did you decide not to expand your business?

Mr. DOMAR. The first of this year when Alcoa entered and announced their market prices we just couldn't incur the investment that it would require.

Mr. YATES. The first of this year you decided not to do it. Was this the first information that you had that Alcoa was going to go into the siding field?

Mr. DOMAR. Definitely was. We had rumor.

Mr. YATES. No information about it before?

Mr. DOMAR. No.

Mr. YATES. Do you know what you were paying for 3003 siding at the start of this year?

Mr. DOMAR. $0.395 again.

Mr. YATES. $0.395 at the start of this year?

Mr. DOMAR. Yes.

Mr. YATES. And what were you selling your siding for?

Mr. DOMAR. $21.95 the first of the year.

Mr. YATES. $21.95?

Mr. DOMAR. Yes.

Mr. YATES. Is this the price at which most of the siding manufacturers were selling their siding?

Mr. DOMAR. At that time, yes, however, that lasted, I think, only about a month and then it went up to $22.95.

Mr. YATES. Well now, what was Alcoa selling siding for?

Mr. DOMAR. You mean what they announced at that time?

Mr. YATES. At the start of the year.

Mr. DOMAR. Yes; a $22.95 price but guaranteeing a 16-percent gross profit to their five chosen accounts, regardless of what the market price was.

Mr. YATES. When you say "five chosen accounts" what do you mean? Is there a special way that Alcoa went into this business?

Mr. DOMAR. Yes.

Mr. YATES. How did it go in? Did it decide to sell it through five companies?

Mr. DOMAR. The way I understand it, they approached quite a number of the major roofing and siding manufacturers nationally. Of those they approached with their program, they signed five as exclusive distributors for them, guaranteeing them a 16-percent profit approximately, regardless of the market price.

Mr. YATES. And what were the names of the five companies?

Mr. DOMAR. Let's see, Jones & Brown, Flintkote, Bird. I can't think of the other two right now.

Mr. YATES. There are two other companies?

Mr. DOMAR. Yes.

Mr. YATES. What has been your experience since the first of the year? Their price apparently was higher than the price you were selling at. You must have gotten more business.

Mr. DOMAR. No. In 1959, the first 3 months we had approximately a 43-percent increase in volume over 1958, respectively. During 1959 and currently in 1960, Reynolds, Kaiser, and Alcoa have put and are continuing to put a tremendous advertising campaign on nationally through various magazines, television, radio, et cetera.

National Homes' entry into the field has caused a stimulation of the small builder. In other words, it is opening up another market rapidly, gaining national acceptance to this product.

Mr. YATES. You mean there are aluminum homes that are being built.

Mr. DOMAR. Oh, yes.

Mr. YATES. I hadn't seen many in Chicago where I come from.

Mr. DOMAR. You haven't?

Mr. YATES. No. Where should I look?

Mr. DOMAR. Well, right in Chicago proper there aren't any that I know of. There is a lot of clad ones. However, in the suburban areas north and west and northwest, its fabulous.

Mr. YATES. How large are they? How much do they cost? I am not aware of this.

Mr. DOMAR. They will go from the Chicago area from $13,000.

Mr. YATES. For what size house? What size house do you pay $13,000 for?

Mr. DOMAR. A small prefab, about 900 square feet of living area.

Mr. YATES. Yes.

Mr. DOMAR. And they will go up to well, possibly the $30,000 and $40,000 class.

Mr. YATES. Is that true?

Mr. DOMAR. Yes.

Mr. YATES. Where can I see some of these?

Mr. DOMAR. Let's see, Villa Park. Down Higgins Road there are several big highway signs. Just follow the signs and you see them.

Mr. YATES. This is a tremendous new field; is it?

Mr. DOMAR. Oh, yes. Well, we had forecast it.

Mr. YATES. You know when I have a picture of siding, I am thinking of the huge apartments and office buildings that were being constructed with aluminum and stainless-steel siding.

Mr. DOMAR. No; this siding is two basic types. One is just like the clapboard and the other is like a vertical board and batten type.

Mr. YATES. I see.

Mr. DOMAR. But with the tremendous advertising impetus and the effect that National Homes has on the builder and their acceptance of aluminum, they have created a competitive situation as far as salability, no maintenance on this programing that is being sponsored where the small builder has followed suit.

Mr. YATES. What is siding being sold for today? What do you sell siding for today?

Mr. DOMAR. Dollarwise?

Mr. YATES. Yes.

Mr. DOMAR. Well, the distributor rate is $22.95.

Mr. YATES. All right now, what does Alcoa sell it for, the same price?

Mr. DOMAR. $22.95; yes. However, they don't meet the market price. I haven't found a price where they have sold under.

Mr. YATES. Is this a fair price, this $22.95 a fair price? Is it below cost?

Mr. DOMAR. No; it is not below cost but it is not much above it.

Now the reason for that, that price is not attributed to Alcoa. This industry has grown. Its fabulous. From those 10, I think currently there are about 30-some-odd manufacturers in the last 3 years that have arisen.

However, other than their effect as merchandisers, they have no basic advantage over us and we have no advantage over them other than, let's say, our own sales ability.

We each have our own sales force, own advertising staffs, and may the best man win. However, with the entry of Alcoa, being fully integrated and their warranty or guarantee to their dealers of a 16-percent profit, regardless of margin, it puts their selling price to these dealers who we had hoped to get, as did the other manufacturers, we had keyed our 1960 sales program to a wider, let's say, wholesale distribution rather than a direct sell to contractors.

The industry has grown such that the basic cost of keeping multiple accounts on your books is an added burden. But we couldn't guarantee anybody a 16-percent profit. We can't guarantee it to ourselves.

Working backward from the current selling price of $22.95, that means Alcoa is selling it to these 5 at a price of $19.28.

Mr. YATES. Selling what to them?

Mr. DOMAR. Siding.

Mr. YATES. At $19.28?

Mr. DOMAR. $19.28 to enable them to sell at a $22.95 price on the market, if they choose.

Mr. YATES. What does it cost you to manufacture?

Mr. DOMAR. Well over $20.

Mr. YATES. Well over $20?

Mr. DOMAR. Yes. That is a variable due to plant efficiency, burden of expense, and advertising and promotion, together with the subsidized cost, if I may use that word. Their advertising campaign is such that I think with the 30 manufacturers currently in it, if we put all of our advertising dollars together we couldn't touch it.

Another phase of it that I am sure you are aware of are the various complaints that have been entered regarding the selling of home improvements.

A salesman, a doorknocker, will say he is a representative of Alcoa, Kaiser, or Reynolds and thereby promote and secure a sale.

What homeowner has ever heard of Alsco, Allside, or U.S. Aluminum Siding?

If I come in representing, and justifiably, say Alcoa, with pure Alcoa siding, it sort of knocks the wind out of the salesmen. It is a pretty rough deal. Unless something is done, we can't exist.

Mr. YATES. What is Reynolds and what is Kaiser doing in the field now? Are they meeting this competition?

Mr. DOMAR. No, they are doing their utmost currently to help us by advertising aluminum siding and using our names, not their own name.

In other words, let's say Reynolds or Kaiser, with their various promotion of merchandising are saying use so and so's product, made with Kaiser or Reynolds coil.

They have their own salesmen working on the new construction market. They sent to us and the other independent manufacturers the names of those and then it is again, may the best man win and which is fair. There is nothing wrong with that, but how you can buck a price or a name on a subsidized program, I don't know.

If I buy coil sheet currently from Alcoa at their current price and their current payment price, I would be paying just for material; no fabrication charges, no packaging charges, no advertising, no sales, no administration, no general overhead, $20.72 for the metal needed and they are selling it for $19.28 complete.

I can't do that.

Mr. YATES. That is pretty difficult.

Mr. DOMAR. Right.

Mr. Multer?

Mr. MULTER. I wish somebody would tell us what we can do about it.

Mr. DOMAR. That is why I am here; I don't know.

Mr. YATES. Mr. Dalmas?

Mr. DALMAS. Mr. Domar, I would like to know whether or not these five roofing manufacturers process these coils the same as you do.

Mr. DOMAR. No; they don't. They are merely merchandisers for Alcoa.

Mr. DALMAS. Do they ship direct to the customer from the sheet mill or take the material from their own stock?

Mr. DOMAR. No; Alcoa ships to them on their order for X number of quantity, a definite order of the quantity. Alcoa ships it to them completely packaged, ready for resale.

They then will resell it to their accounts, where it would be new construction, lumber dealers, building material wholesalers nationally.

Mr. DALMAS. In other words, it's a direct shipment from the mill?

Mr. DOMAR. Or from Alcoa's point of manufacture, wherever that may be.

Mr. DALMAS. I mean from Alcoa's mill.

Mr. DOMAR. I think Alcoa also has a direct shipment arrangement too. I am not sure how that works.

Mr. DALMAS. Some of the people you mention are national composition roofing manufacturers.

Mr. DOMAR. That is right; they are and they have a real nice deal in this one.

Mr. DALMAS. But you would take the coils then and do your own manufacturing?

Mr. DOMAR. Yes.

Mr. DALMAS. Do you have any special features on your siding such as a locking device or anything else?

Mr. DOMAR. No; they are all basically similar. Naturally, we feel our product is the best.

Mr. DALMAS. Nothing extra, nothing patentable?

Mr. DOMAR. One feature we claim is individual designing of a product, individual taste.

Mr. DALMAS. Is it a patented feature?

Mr. DOMAR. No; I don't think there is anything in the siding industry that is patentable because it has grown so fast and so many of the features of one can be found in the other, it is more or less a standardized product. It has to be. I can't visualize making it any different and being competitive in price. Any other changes, as far as our drafting boards have revealed, would add more metal and the addition of more metal would make the basic cost further out of line.

Mr. DALMAS. You have spoken primarily of dwellings. There is a big market also in farm buildings and warehouses, and so on; is there not?

Mr. DOMAR. There could be, but again it hasn't been until the last few years where the product itself has made a good headway. I am talking about general acceptance.

However, Kaiser, Reynolds, and Alcoa and probably several other companies make the corrugated-type sheet which is cheaper on a square-foot basis and for warehouses thus far, it has been much more practical.

Mr. DALMAS. You don't go into that?

Mr. DOMAR. No, sir; we have sold some warehouse jobs where they are right in the heart of town and they are a multifunction building and the owners wanted a more pleasing appearance rather than you know, a factory-type look or something like that.

It is purely for visual beauty, that's all.

Mr. YATES. Is there anything else you would want to tell us, Mr. Domar, about this situation?

Mr. DOMAR. As I say, this was short notice. If you have any questions I would be more than happy to try to answer them.

Mr. YATES. I think we have received a picture of what's going on in the siding industry from you.

I am not quite sure in my own mind about the relationship of Alcoa to the distributors. Apparently it uses the five as distribution chains throughout the country and performs their manufacturing service for them actually in the same way that you perform your own.

Mr. DOMAR. However, we feel that U.S. Aluminum Siding, and we have discussed this with the Aluminum Siding Association, that there is a definite unfair pricing, a pricing factor, a subsidization that we cannot be in any way, form or manner competitive with Alcoa, forgetting the direct salesmanship aspect of it; forgetting the advertising, dealing only with basic materials.

There is no way in the world that the majority of us or any of us I know of, even the one who is more integrated, that is Alsco, can enjoy any profit if this continues on this way.

Now, if Alcoa sold it at $22.95 as we would have to sell to these same manufacturers or some of the good manufactures, I don't think there would be much of it.

Mr. YATES. Well, these are really salesmen, aren't they, the five companies are really salesmen for Alcoa?

Mr. DOMAR. Right.

Mr. YATES. It amounts to an independent selling organization.

Mr. DOMAR. Right.

Mr. YATES. And Alcoa is selling its product to these people at the price at which you sell it, or is it a lower price than yours?

Mr. DOMAR. Yes, they are selling it to these people at a lower price than I can and if these people so elect, as they have——

Mr. YATES. Well, the product is being sold to your customers and their customers, the people to whom you want to sell your product at the same price, are they not?

Mr. DOMAR. Would you repeat that?

Mr. YATES. Who were the companies Flintkote? Well, let's say, for example, that Flintkote sells it to a contractor.

Mr. DOMAR. That is up to Flintkote. I don't know.

Mr. YATES. Are they selling it for less than $22.95?

Mr. DOMAR. I don't know. I called up and couldn't find out the prices.

Mr. YATES. I was under the impression from your testimony that this is fairly uniform, the prices.

Mr. DOMAR. In the manufacturing.

Mr. YATES. I was thinking of sales to the public at large.

Mr. DOMAR. I don't know. I know the 30 some odd independent manufacturers, the price is uniform but I just got a report yesterday when I was called about this, from our salesman up in New England that one of those five, and I am not sure at this point which one, has quoted a price below that $22.95 and is thereby threatening to take one of our accounts.

We have lost one in Denver due to a price setup that we can't meet.

Mr. YATES. How can these five sales companies of Alcoa lose money? They can't possibly be losing money.

Mr. DONAR. No, sir.

Mr. YATES. They get 16 percent of the profit on their sales.

Mr. DOMAR. Right. If they elect to take a 10 percent profit, they cut that price. They can cut that price by 6 percent. We cannot cut our price by 6 percent and stay in business. It is just not there.

Mr. YATES. Now, whose price are they quoting? Is it their own price or Alcoa's price?

Mr. DOMAR. Alcoa has no price on the street. Alcoa is selling merely to these five.

Mr. YATES. But you said that Alcoa's product was being sold.

Mr. DOMAR. Through these five.

Mr. YATES. Yes.

Mr. DOMAR. We are getting confused.

Mr. YATES. No, no we are not getting confused. You said a moment ago that there is this door knocker, the salesman, who knocks on the door and says he is selling Alcoa's siding.

Now, who hired this door knocker, one of the five companies?

Mr. DOMAR. No, no, someone they are selling to. Let's go into the chain.

Mr. YATES. This is a salesman, once removed from one of the five companies?

Mr. DOMAR. Right.

Mr. YATES. The five companies will sell to the salesman?

Mr. DOMAR. And Alcoa will sell to the five companies.

Mr. YATES. Yes.

Mr. DOMAR. And anywhere down that line—in other words, Alcoa is guaranteeing these five companies a profit, a gross profit.

These five companies have a choice, if they decide to go into a specific market with the Alcoa siding and make a drive on sales, they could go in with a price down to or anywhere within that 16 percent profit and still show a profit.

Mr. YATES. If Alcoa wanted to cut the price to 15 cents it could do so and these companies would still make their profit?

Mr. DOMAR. Right, and that to me is a pure case of price cutting and subsidizing.

Mr. DALMAS. Mr. Chairman, these manufacturers' agents apparently are selling the merchandise and carrying the account.

Mr. DOMAR. Right.

Mr. YATES. But it is a price established by Alcoa.

Mr. DOMAR. I do not think there is what you could call a price establishment, but there is a guarantee of profit.

Mr. YATES. If they are manufacturers' agents, the manufacturer usually sets the price, does he not?

Mr. DOMAR. He could. But it is a fluctuating thing. It could fluctuate with any competition.

Mr. YATES. Maybe we can find out something about this when Alcoa testifies on what this actual relationship is.

Mr. DOMAR. We had a discussion with Kaiser about 2 weeks ago, relative to this matter, and asking their advice as to continuing our program of expansion. We worked backward; in other words, from the current market price of siding to a distributor, going to our cost, using the current commodity price of aluminum, the prices that the investigation teams of Alcoa, Reynolds, and Kaiser—in other words, direct costs of manufacturing—and they recommended to us not to

go into it. They said, you cannot make money, and I do not know of any business, small or large, that is going to continue unless there is some sort of profit, really.

Mr. YATES. Is this true of all other people who are in the siding association?

Mr. DOMAR. I would say I know of none that are not extremely nervous, and I know of one that has, at this point, more financial loss facing them than we do, because they have already invested greatly in capital equipment, and they are more integrated than we are. That is Alsco.

Mr. DALMAS. Mr. Chairman, I should like to ask Mr. Domar this question, if I may.

Mr. YATES. Yes.

Mr. DALMAS. Would you say that sales and carrying costs would equal 16 percent of the sale price of the product?

Mr. DOMAR. You mean the cost necessary——

Mr. DALMAS. The cost of selling and the cost of carrying the account. Would that equal 16 percent?

Mr. DOMAR. No.

Mr. YATES. What would that figure be?

Mr. DOMAR. I do not think it should exceed maybe 12 percent, complete. That is with burden and so forth, in our case. Because, as I say, we do not have, currently, the depreciating factor of capital equipment that we would have if we had, let us say, thoroughly entered into it.

Mr. YATES. This includes your sales and warehousing and other costs of that type?

Mr. DOMAR. In other words, some of these accounts will go well into 120 days, and I am sure that you gentleman know the value of money on the market today. In other words, credit is a loan, which is costly. We just do not have that margin of profit to carry too many accounts to that extent.

Mr. YATES. You do not know the basis of selling of these five companies when they raise the credit?

Mr. DOMAR. Well, their terms generally are 1 or 2 percent 10 days, and 30-day credit.

Mr. YATES. About the same as yours?

Mr. DOMAR. We cannot give a 2-percent discount for 10 days. The $22.95 and the cost of selling and so forth; there is not that margin.

Mr. YATES. They have a great leverage that you do not have?

Mr. DOMAR. Yes, the available cash, the integration, the name, facilities.

Mr. YATES. Delivery.

Mr. DOMAR. We cannot meet it.

Mr. YATES. Well, thank you very much, Mr. Domar. We are grateful for your statement, and if we want additional information, we shall call upon you.

Mr. DOMAR. Yes, sir. Thank you, sir.

Mr. YATES. Is Mr. Sugar here?

Mr. SUGAR. Yes, sir.

Mr. YATES. All right.

Mr. Sugar, will you identify yourself, please?

TESTIMONY OF HARRY SUGAR, PRESIDENT, ALSCO, INC., AKRON, OHIO

Mr. SUGAR. My name is Harry Sugar. My residence is 2554 Yellow Creek Road, Akron, Ohio. I am president of Alsco, Inc., of Akron.

Mr. YATES. You are appearing here pursuant to a subpena?

Mr. SUGAR. Yes; I was subpenaed, and I am here to answer whatever I know.

Mr. YATES. What is the name of your company?

Mr. SUGAR. Alsco, Inc. A-l-s-c-o.

Mr. YATES. In what business is Alsco engaged?

Mr. SUGAR. Primarily we are in the aluminum extrusion business, making windows and doors, and now in the aluminum siding business, and are a semi-integrated company.

Mr. YATES. What do your facilities consist of? What do you have?

Mr. SUGAR. We start with the pig, or rolling slab or extruding ingot, and process from that point on.

Mr. YATES. How long have you been engaged in business?

Mr. SUGAR. We started in business in 1946. We were one of the pioneers in the use of aluminum in homebuilding products.

Mr. YATES. How long have you been in the siding business?

Mr. SUGAR. We have been in and out of the siding business since 1949. Due to many problems of procurement of materials, technical problems and otherwise, we really made a push into this business in 1955.

Mr. YATES. When you say you really made a push into this business in 1955, what do you mean?

Mr. SUGAR. We went after it.

Mr. YATES. You went after it?

Mr. SUGAR. Before we did not.

Mr. YATES. When you say you went after it, what does this mean?

Mr. SUGAR. I mean we went out aggressively seeking to promote and sell the product. But previously——

Mr. YATES. You made your own siding?

Mr. SUGAR. Yes.

Mr. YATES. Did you buy the coil?

Mr. SUGAR. We bought coil and reroll stock at the time.

Mr. YATES. From whom did you buy it?

Mr. SUGAR. Primarily at that time, Alcoa.

Mr. YATES. When you say primarily at that time, what do you mean?

Mr. SUGAR. 1955. We were a 90-percent account of Alcoa.

Mr. YATES. And how many companies were engaged in the siding business at that time?

Mr. SUGAR. At that time, a half dozen.

Primarily Alside, which was the large one; then there was the U.S. Aluminum; Lifetime; Lifalum; ourselves, and there was a company in Pittsburgh, I think, named Keystone.

Mr. YATES. How many companies are in that business today?

Mr. SUGAR. I imagine, outside of the smaller independents—when I say the smaller ones, I am talking about those who may have just a roll-forming piece of equipment—there are about, I would guess, 30 or 35. The others, I would not know how many.

Would you care for me to explain the difference?

Mr. YATES. Yes.

Mr. SUGAR. When I say about 30 manufacturers, I am talking about those who have their own paint lines, or have other facilities for fully fabricating a finished product, merchandise and sell it to others, either wholesalers, distributors, or retail users. The smaller independents are those who have their own captive businesses and buy a coil of painted stock and merely fabricate one item and buy the other materials from other manufacturers.

Mr. YATES. Now, these were the people with whom you were engaged in competition in selling siding?

Mr. SUGAR. Yes.

Mr. YATES. Were any of the Big Three in competition with you?

Mr. SUGAR. Not at that time. Kaiser previously, back in the late 1940's, entered into the business and were in it for only about a year and then dropped it.

Mr. YATES. Have any of the Big Three moved into the siding business now?

Mr. SUGAR. Alcoa did in the last few months.

Mr. YATES. In the last few months?

Mr. SUGAR. Right.

Mr. YATES. Had you received any assurances from Alcoa, as Mr. Domar did, that it was not going to compete with you in this business?

Mr. SUGAR. Yes; we have on many occasions. We would hear rumblings and would ask, and, of course, it has always been their answer, "We do not compete with our customers."

Mr. YATES. When did Alcoa go into the siding business?

Mr. SUGAR. We first heard about it, I think it was early in the summer, last summer. But actually we could never pin it down until about, oh, I would say last October 1959, when we heard that they were taking away our largest single account, which was a company called Mastic, which Mr. Domar referred to as Jones & Brown. Mastic Corp. is the right name.

Mr. YATES. I see. And how did this come to your attention?

Mr. SUGAR. Well, officially, we received a letter from Mastic canceling our contract, which they had the right to do.

Mr. YATES. What kind of a contract did you have with them?

Mr. SUGAR. We had a supply contract with them, which had a 90-day cancellation clause.

Mr. YATES. How long had this contract been in existence?

Mr. SUGAR. Well, we had a prior contract. When it was learned that that contract was not proper, the handling, we rewrote it, and we made a new contract, which I think was in 1957. It was to go, I do not recall how many years, but it was a 90-day cancellation clause on either one.

Mr. YATES. Was the notice of cancellation the first information you had?

Mr. SUGAR. Officially.

Mr. YATES. That Mastic was dissatisfied?

Mr. SUGAR. No; it was not a question of dissatisfaction; it was a question that Alcoa's offer was far better than we could ever offer.

Mr. YATES. What did Alcoa offer to Mastic that you could not offer?

Mr. SUGAR. Well, for example, a correction of Mr. Domar's statement, at the time that this came about, the price of coil sheet was reduced to $0.355, not $0.395.

Mr. YATES. When you say it came about, what time was that?
Mr. SUGAR. That was early winter. It may have been November.
Mr. YATES. November 1959?
Mr. SUGAR. Yes.
Mr. YATES. The price was what?
Mr. SUGAR. The price was reduced from $0.395 to $0.355.
Mr. YATES. Who reduced it?
Mr. SUGAR. All of the producers.
Mr. YATES. This was the price of the coil?
Mr. SUGAR. Right.
Mr. YATES. Alcoa reduced it and Reynolds?
Mr. SUGAR. I think Alcoa was first and the others met it.
Mr. YATES. In November of 1959?
Mr. SUGAR. Right.
Mr. YATES. Then what?
Mr. SUGAR. Immediately, one of our competitors dropped the price in proportion, the same 4 cents a pound, which is roughly $2 a hundred square feet. The price was dropped from $24 to $21.95.
Mr. YATES. For what?
Mr. SUGAR. One hundred square feet, called a square.
Mr. YATES. The price went to $21 for a square——
Mr. SUGAR. $21.95.
Mr. Yates (continuing). From $24?
Mr. SUGAR. Yes, f.o.b. plant.
Mr. YATES. All right.
Mr. SUGAR. About 2 weeks later, we met that price, as we could not stay away from it. Alcoa then, of course, when they come out——
Mr. YATES. Where does Mastic come in?
Mr. SUGAR. Mastic was our account that Alcoa took away from us.
Mr. YATES. Here we have a reduction in price of coil in November 1959 from $0.395 to $0.355, which was followed thereafter by a drop in square price from $24 to $21.95?
Mr. SUGAR. Right.
Mr. YATES. And in November, Mastic was still your customer?
Mr. SUGAR. Yes, and we dropped the price to Mastic to allow them to stay in business. We further reduced our price to them by $0.75, which was then brought down to $20.75.
Mr. YATES. A square?
Mr. SUGAR. Yes.
Mr. YATES. This was all in November?
Mr. SUGAR. Yes.
Mr. YATES. When did Mastic cancel their contract?
Mr. SUGAR. We got our notice, I think, in December.
Mr. YATES. A month or two later?
Mr. SUGAR. Yes. I could be wrong. That price reduction could have been a month or so later.
Mr. YATES. What was the reason for the cancellation?
Mr. SUGAR. Because they had a far better deal from Alcoa.
Mr. YATES. What better deal? Did they offer you an opportunity to match Alcoa's deal?
Mr. SUGAR. No, they did not. Alcoa's price to them was the same price, whatever the industry was selling for.
Mr. YATES. Selling what for, the coil or the——

Mr. SUGAR. No, the finished product. Mastic only buys the finished manufactured product. Alcoa's price to them was the regular price that anyone would sell to them for, the established list of, let us say, the larger producers. Smaller producers still fell under that price. Mastic discount would be from 16 to 20 percent from that.

Mr. YATES. What would that be in terms of actual price?

Mr. SUGAR. At that time, the price figured out, not including advertising allowances or any other sales aids that they might contribute, it brought it down to about $18.65, and our price was $20.75.

Mr. YATES. Mr. Multer?

Mr. MULTER. What about credit terms?

Mr. SUGAR. Mastic told me themselves that the credit terms they could receive were anything they wanted, 90 days, or if they needed 120, they could get that.

Mr. MULTER. What were yours?

Mr. SUGAR. Twice a month, the 10th and the 25th.

Mr. MULTER. What about warehousing? Did Alcoa offer to warehouse the product for them?

Mr. SUGAR. No, there is no warehousing arrangement that I know of.

Mr. MULTER. How about advertising allowances and such?

Mr. SUGAR. I do not know if there is any special advertising allowance, but the advertising program is extreme, and if you look at some of their ads, they have full page ads. I have some here, if you care to see them, showing the Alcoa label. This is——

Mr. YATES. What is that magazine you have?

Mr. SUGAR. This is Building Specialties. This is the American Builder; this is Roofing, Siding, and Insulation; and, of course, Time magazine, Life, Fortune, television shows.

Mr. MULTER. These are advertisements by whom?

Mr. SUGAR. Alcoa.

Mr. MULTER. Do any of them carry the Mastic name?

Mr. SUGAR. Well, they just have the five names who are the five distributors, Barrett, Bird, Flintkote, Mastic, and Ruberoid.

Mr. MULTER. When you were selling the Alcoa product, did Alcoa at any time authorize you to represent that you were selling for them?

Mr. SUGAR. Oh, no.

Mr. MULTER. What about Mastic? Are Mastic salesmen now indicating or saying that they are Alcoa representatives?

Mr. SUGAR. Well, as the ads will show you, it is an Alcoa product sold by these people. All carry the same label.

Mr. MULTER. Actually, all they got from Alcoa is the same as you got—that is, the coil—and you processed the coil into siding, and that is what they do?

Mr. SUGAR. No, they buy the completed manufactured product.

Mr. MULTER. It is complete in itself?

Mr. SUGAR. It is complete in a box, with their label on it.

Mr. MULTER. Do they warehouse this product?

Mr. SUGAR. That I could not tell you, but their distributors all have warehousing. But these people now use this product, what we call top loading; they will sell just a few boxes and put it on with a load of other manufactured items that they make and can sell at the truck-

load price or carload price, and we would have no way of making delivery on the same basis.

Mr. MULTER. The price was set at $18.65 about December?

Mr. SUGAR. Well, now, that is based on the understanding that the list——

Mr. YATES. This was the Mastic price?

Mr. SUGAR. Yes.

Mr. YATES. Were there other companies that received this Alcoa advantage?

Mr. SUGAR. All those five that are listed, Ruberoid, Barrett, Flintkote, Carey, and Mastic. Those are the five.

Mr. DALMAS. You said Bird the other time.

Mr. SUGAR. Then it is Bird, maybe. Yes, it is Bird.

I have a copy here of an article that appeared in the Wall Street Journal. I would be glad to read it, if you would like.

Mr. YATES. I would like to see it.

Mr. SUGAR. This was early in 1960, by the Wall Street Journal staff reporter, Pittsburgh.

> Aluminum Co. of America announced development of an 8-inch clapboard aluminum siding.
>
> The company said the new product will be marketed by five major producers of building products. The siding is designed to save homeowners maintenance, heating and air-conditioning costs, the company said.
>
> The new siding is the only siding fabricated by Alcoa, the firm said, although the company's aluminum is used in the manufacture of many sidings by other firms. The product will be advertised as Alcoa siding.
>
> Alcoa siding will be used exclusively by 25,000 dealers and dealer-applicators of Barrett Division, Allied Chemical Corp.; Bird & Son, Inc.; Flintkote Co.; Mastic; and Philip Carey Manufacturing Co.
>
> The siding components are Alclad aluminum sheet, backed by factory-applied foamed plastic, which serves as a stiffener and insulator, and by aluminum foil, acting both as reflective insulation and as an additional stiffening agent. The siding will be available in white, green, grey, yellow, and new "Alcoa beige."
>
> "Scientific tests indicate that a family living in a house containing 1,200 square feet of floor space can expect to save as much as 33 percent per year on heating bills," said Thomas J. Lannen, Alcoa manager of residential sales. "Alcoa estimates that the new siding's superior weathering qualities will eliminate home painting bills for many years and will cut other maintenance costs up to $50 a year."

Mr. YATES. Is this the ordinary way in which siding has been sold in the industry?

Mr. SUGAR. Well, no, I cannot say that that is the ordinary way. The way it has been sold in the past has been by companies like ourselves, who sell it to a distributor, or we would have a company-owned distribution point. We, in turn, then, would sell it to the local contractors, builders, and contractor applicators.

Mr. YATES. Now, did Alcoa offer you the same opportunity they gave to Mastic?

Mr. SUGAR. Well, they would not because of our huge program of facilities. It would not pay us even to think of it, because our overhead would have——

Mr. YATES. Did Alcoa let you know it was going into competition in this way?

Mr. SUGAR. Not until the manager of the Cleveland office came down and officially told me that early last winter, even though we had heard many rumors of that, without knowing for sure.

I would like to add that last May—1959—our company put out a $4 million bond issue which was successfully sold for the purpose of expansion into this field.

Mr. YATES. Was this a public offering?

Mr. SUGAR. Yes.

This offering was for the purposes of the expansion, which is not quite completed as yet. At that time, we had no knowledge that we would have such a major competitor that would use other parts of its business and subsidize itself to compete with us at a price that we could never sell for.

Mr. YATES. I heard somewhere that Alcoa wanted to buy your firm. Do you have anything you want to say about that?

Mr. SUGAR. Well, there has been offhand discussion, but nothing on an official basis.

Mr. YATES. Well, now, have they reduced the price of coil to you?

Mr. SUGAR. Yes, when they reduced—when I explained previously, early last winter, they reduced the price of coil in the siding industry.

Mr. YATES. From $0.395 to——

Mr. SUGAR. To $0.355.

Mr. YATES. And that permitted the manufacturers to reduce the price per square to $20.75—no, to $21.95.

Mr. SUGAR. Right.

Mr. YATES. Is that the price today?

Mr. SUGAR. No. Since then the price of aluminum has gone up roughly a dollar a square, and the price of siding immediately reflected that dollar rise, and it is up now to $22.95.

Mr. YATES. Did this follow the increase in the price of pig?

Mr. SUGAR. Right. Even though Alcoa's price as I have seen it carries a dollar higher price, but theirs are all dollar prices, so roughly it works out about the same. We feel that Alcoa's price to their distributors worked out to a point not including the advertising program which they, themselves, have put at roughly $3 million. They are selling the sheet to that division for roughly 30 cents a pound, and we think the advertising program may come to another 5 or 6 cents a pound.

Mr. YATES. Mr. Multer?

Mr. SUGAR. That, of course, adds a greater loss to their product, in our opinion.

Mr. MULTER. Did your firm ever carry advertising in publications similar to this February 1960 issue of RSI—Roofing, Siding, and Insulation?

Mr. SUGAR. Yes, we have run various ads. I do not know whether they were in this issue or not.

Mr. MULTER. Full-page ads?

Mr. SUGAR. Yes.

Mr. MULTER. I notice in this issue there are at least eight full-page ads, all playing up Alcoa siding under the names of these companies you have mentioned: Philip Carey Co., the Barrett Division of Allied Chemical Corp., Bird & Son, Flintkote Co., and Mastic Corp. Do you know whether Alcoa paid the advertising bill on this?

Mr. SUGAR. I do not know. I would doubt it, myself, because there is a markup, in my opinion, that allows them to make the payment on that. It is a trade paper and not very expensive.

Mr. MULTER. It is your opinion that these companies have a high enough markup to be able to pay this?

Mr. SUGAR. I can only assume.

Mr. YATES. Can you compete with these companies?

Mr. SUGAR. We cannot successfully compete with Alcoa on that level. You see, they sell these companies who are national distributors. We in turn have to act as a national distributor.

Now, we have additional costs. The high cost of promotional sales, because we have just our one product to sell, where these other companies have their own line of manufactured items and this is merely an added item, which certainly cost them very little to sell, by comparison with what it would cost us.

Mr. YATES. I do not know whether or not you answerd this question, but you indicated that Mastic canceled the contract. Did they tell you why?

Mr. SUGAR. No.

Mr. YATES. They just gave you the notice of cancellation?

Mr. SUGAR. Even though we know why they canceled, because we cannot compete with the program, and they put great stock in the Alcoa program and what it is going to do with them to give them a big profit, with all the sales helps and sales aids and the big name and everything else. They thought it would make tremendous inroads in the business for them.

Mr. YATES. You heard Mr. Domar testify that each of these companies was guaranteed a 16-percent profit?

Mr. SUGAR. Yes.

Mr. YATES. Is this generally known in the industry?

Mr. SUGAR. Yes, it is. I have been told by one of the Alcoa people that their program is to give their distributor that markup, regardless of what the price is. If is it up or down, their distribution discount is the same.

Mr. YATES. Does Mastic sell—do Mastic and the other companies sell aluminum siding for the same price you sell it?

Mr. SUGAR. They do, but with the spread that they have, they have lots of room to make all kinds of deals, which we cannot do.

Mr. YATES. Siding squares are now being sold for $22.95?

Mr. SUGAR. Right.

Mr. YATES. What are your costs?

Mr. SUGAR. We have a little different situation than most of the others, due to the fact that we are a fully integrated company. I can only say that our winter quarter, during the period when Alcoa really started to make big deliveries, that we showed a substantial loss, because we had to spend more money on promotion, more sales help, more men in the field, to try to overcome the tremendous program that Alcoa is offering to these same customers through their distributors.

I would say that the smaller operator who has to buy coil cannot manufacture with their overhead and sell it at the $22.95 price. It costs him more than that. I think we figured out the metal costs over $20 a square, not including scrap, boxing, labor, overhead, sales costs, advertising, credit losses and everything else that happen in business.

Mr. YATES. What about Alside, which seems to be a fairly large company.

Mr. SUGAR. Yes, they are.

Mr. YATES. Can they compete?

Mr. SUGAR. I cannot tell you exactly their picture, because their figures are always held very closely, and I do not know what they can or cannot do.

Mr. YATES. When you say "fully integrated," you do not mean the pig——

Mr. SUGAR. No, we are semi-integrated. We start with either slab or pig—rolling slab.

Mr. YATES. Is siding your principal product?

Mr. SUGAR. Right today, yes. That and windows and doors, storm windows and storm doors.

Mr. YATES. What about windows and doors? What is the story on that?

Mr. SUGAR. The industry is so demoralized, there is just nothing left.

Mr. YATES. What do you mean by demoralized?

Mr. SUGAR. It is hard even to break even. We have a very substantial loss in that division this past year, and we are trying hard to come up with new——

Mr. YATES. When you say you had a great loss in that division, why did you have a loss? Because of your operation, because of prices, or what?

Mr. SUGAR. Well, primarily prices were too low. But I would say a good part of it is due to our particular setup, the way we were operating, and it is hard to make a quick change to overcome many things at the moment. We are in the process of making changes which——

Mr. YATES. Do you find the same type of competition in the sale of windows and doors that you do in siding? Do you find that any of the big three are selling——

Mr. SUGAR. No, none of the Big Three are in that field.

Mr. YATES. None of them are in that field?

Mr. SUGAR. No.

Mr. YATES. Is not that surprising?

Mr MULTER. These little fellows have not built up a big enough industry for them.

Mr. SUGAR. They have always told us they would not go into end products.

Mr. MULTER. That is what they told you about the siding, too.

Mr. SUGAR. Well, yes, but the siding looked like a very rich plum.

I shall tell you this: The main reason I think Alcoa went into it is due to the fact that their percent of the market is estimated to be down to less than 10 percent of the total before they went into it themselves.

Mr. YATES. What about Kaiser and Reynolds? Are they not in it?

Mr. SUGAR. Not that I know of.

Mr. YATES. Will they have to go into it to compete with Alcoa?

Mr SUGAR. Kaiser people have told me repeatedly they have no intentions of going into the business. They may be forced into it if they lose their customers to a degree where they have to protect their sale of metal into the market.

Mr. YATES. What about Reynolds?

Mr. SUGAR. I do not do business with them, so I do not know.

Mr. YATES. You do not buy coil from them?

Mr. SUGAR. No; nothing from them. Alside is the main customer of Reynolds.

Mr. YATES. Oh, you make your coil.

Mr. SUGAR. That is right.

Mr. YATES. I am sorry. I forgot that. Whom do you buy your raw material from?

Mr. SUGAR. Primarily today, we buy 65 percent of our raw material from Kaiser.

Mr. YATES. You do not buy from Alcoa?

Mr. SUGAR. No; we do not want to feed our competition.

Mr. MULTER. But before, you were buying from Alcoa?

Mr. SUGAR. We were a 90 percent captive customer until 1958.

Mr. MULTER. Just before they made their deal with Mastic?

Mr. SUGAR. No; they just made their deal with Mastic. They did not seem to be too interested in our operation. When we asked them for a little help, they——

Mr. MULTER. Did they know about your contract with Mastic?

Mr. SUGAR. They must have. I do not know.

Mr. MULTER. Well, if you asked for a little free advice, and perhaps you do not want it, it seems to me that if what you said is true, you have an awfully good, whopping triple damage suit against Alcoa.

Mr. YATES. Mr. Dalmas, do you have any questions?

Mr. DALMAS. No; I do not have any questions, Mr. Chairman.

Mr. YATES. I was going to ask, are there other things about this situation that we should know about?

Mr. SUGAR. Yes; I would like to mention a few things.

No. 1, I would like to talk about this National Homes deal.

Mr. YATES. Yes.

Mr. SUGAR. National Homes decided to use siding in promotion of their Viking house. I am sure this was done by the promotion of all the aluminum producers, because I recall a little over a year ago, Mr. Price of National Homes was on the Alcoa program, on the Kaiser program, on television, also Reynolds, telling about the great advantages of aluminum in the use of housing.

We called on National Homes and tried to sell them. We made several trips and we always came back with one answer: "If you can sell it to us at $19.75, we shall buy it." At $19.75, we could not even begin to entertain the idea.

Mr. YATES. Were they offered this at $19.75?

Mr. SUGAR. It is our understanding that Alcoa sold it to them at that price, and we did the manufacturing for Alcoa and charged them $22.50.

Mr. YATES. You did the manufacturing for Alcoa and sold it to National?

Mr. SUGAR. We sold it to Alcoa, and shipped it to National Homes, and their trucks picked it up.

Mr. MULTER. And Alcoa absorbed the loss?

Mr. SUGAR. As far as we know.

Mr. YATES. How much of a contract was it?

Mr. SUGAR. We shipped them last year 25,000 squares, roughly, which would mean, at our price to Alcoa, about $575,000.

Mr. YATES. When did this take place?

Mr. SUGAR. Up until, I think the last was in January that we shipped them, or February of this year, because Alcoa had a lot of problems in manufacturing. As a matter of fact, it is our understanding at this minute that they do not make siding yet. They are having it made for them by different manufacturers across the country, as they

had many technical problems, and that is the main reason I think that we were supplying Mastic up to January of this year.

Mr. MULTER. Are they paying these other manufacturers more than their delivered price?

Mr. SUGAR. I have no idea what their deal is with other manufacturers.

Mr. YATES. Are there other things you want to tell us, Mr. Sugar?

Mr. SUGAR. I would like to add a little to this price structure. Just so that you have the story straight, I would like to give you dates, I think, which would be important for you.

From March 14, 1958, to February 1959, Alsco's price for Naylon siding—that is a type of a brand; that is called a hollow back, no foam or foil, as Kaiser referred to in their news release—was $25 a square. That was our lowest price.

On February 9, 1959, this was lowered to $24 a square to meet competition and remained at that level until October 30, 1959.

Wait a minute; I think they have a mistake in the dates here. Well. that is all right.

From August 1958 until December 1959, the price for 99.5 pig was 24.7 cents a pound. That is pig aluminum. The corresponding price for 3003 siding coil was 39.5 cents a pound. When Alcoa raised the price of pig from 24.7 to 26 cents per pound in December of 1959, Reynolds and Kaiser promptly followed. However, Alcoa had previously created a new and lower price for siding coil by a new grade labeled "building coil." This actually was a product identical with the coil previously purchased for fabrication into siding as "3003 siding coil." It was priced at 35.5 cents per pound. This step was taken by Alcoa in early October.

The effect was sharply to alter the competitive situation between Alsco, a semifabricated producer, purchasing pig at the same price previously obtained, and its competitors who as nonintegrated producers were now in a position to purchase the semifabricated coil at a sharply reduced price.

The result was a lowering of the production costs to the nonintegrated producers of siding, while the single semi-integrated producer Alsco, continued at the same cost level.

In December 1959, the price of pig was increased from 24.7 to 26 cents per pound. Semifabricated products were likewise increased in price. The increase was in proportion to the base price increase so that building coil was now priced at 37.3, and the Alclad at 37.8. This Alclad is what Alcoa's product is made of.

The new lower spread in favor of the nonintegrated siding producers was thus maintained.

As a consequence of lowering of the price in the principal component of siding, the coil. Alside promptly lowered the price of siding in mid-October, in response to the lower prices being quoted by the other nonintegrated, smaller producers, particularly Crown Aluminum. The price was reduced from $24 a square to $21.95. Alsco met this price in November of 1959. The price to Alcoa for siding shipped to National Homes was adjusted at that time, principally due to changes in the paint specifications, with the result that an actual price increase was involved.

Mr. YATES. I see.

Mr. SUGAR. I think it would also be well to note that the industry has been shaken very badly by this major competitive move, and there have been a lot of discussions on it, through our siding manufacturers association. It is feared by all that this first step and the big investment that a company like Alcoa will have in this business will force many of the smaller companies out of the business, even though I feel sure that that is not Alcoa's primary motive. I don't think they have any intentions of doing that. But by the prices that will be offered and the advantages that their distribution system will have, many companies will have to fall, and the big fear is that Kaiser and Reynolds, who both have expressed that they will not come into the siding business, will be forced to, and that any producer, including ourselves, will be in a very serious situation.

Mr. MULTER. I do not know why you treat Alcoa so kindly. Every man is presumed to have in mind and to intend the natural result of his conduct. The same applies to a company. If their conduct is going to destroy competition, I think the law presumes that they intend to destroy it by their acts.

Have you or any representative of your firm called these facts that you have testified to, to the attention of the Department of Justice.

Mr. SUGAR. No; we have not. This is the first time we have complained. When I was told that I had a subpena, I just said that rather than wait for it, I would be glad to come down, because I understand the importance of it.

Mr. MULTER. Well, as one member of this committee, at the appropriate time, I intend to urge that we send a record to the Department of Justice.

Mr. YATES. Let me ask you this question, Mr. Sugar. Is Alcoa the only company which dropped the price in the industry so that those who manufacture siding cannot compete, or was this done also by other members of the industry?

Mr. SUGAR. Primarily, I shall say that this is the sequence as it happened. The price of sheet was reduced 4 cents a pound. Immediately, this precipitated a price reduction of a like amount, which was not too hard to figure.

Mr. YATES. Who reduced the price?

Mr. SUGAR. At that time, we understood it was Alside who reduced the price. When they bought their material 4 cents a pound cheaper, they sold it 4 cents a pound cheaper.

We were told that Alcoa will meet any competitive situation. Therefore, their price was at that level. Now, it is not hard to imagine that if the price of sheet went down 4 cents, the price of the finished product could go down the equal amount.

Likewise, when the price went up, the price of the end product went up at the same time. The pricing is just a little different in different categories.

For an example, the price today of Alclad sheet, if we were to compete with Alcoa on Alclad sheet, the price today is 37.8 cents a pound. Painted coil—that is, the painting on the coil—costs roughly 6.3 cents per pound. I am not too sure now that that is one-sided paint or two-sided, plus the added weight that is then sold at the 37.8 cents plus that price.

For example, if coil weighs 1,000 pounds and it comes out 1,030 pounds, you pay for the 1,030, so the price is up just a little more than that.

Based on that figure, the cost of painted coil to the average small user would be approximately $20 to $20.50 a square. Then they would have to roll-form it, have their labor, scrap, sell it, overhead, credit, or whatever else that goes with it. They, in turn, then, could never sell to a distributor. They would have to look for that small buyer who would buy a job at a time, and volume of course on that basis could never be large, because they just could not compete with the Alcoa price, just as well as we couldn't and we are semi-integrated producers.

Mr. YATES. Have there been price reductions or increases attributable to other members of your industry than Alcoa? You mentioned the one reduction of Alside from 39 to 35 cents. Have there been reductions by other members than Alcoa?

Mr. SUGAR. Let me say this. I do not in any way attach the price reduction to Alcoa's entry into the field. The previous price reduction of siding, as I know it, was strictly because the price per sheet was reduced 4 cents a pound, which brought it down to the $21.95 level.

Now, there was a price reduction, of $2, 2 years ago last November. Alside reduced that price—no, that was 2 years ago last February, when a lot of competition was starting to come into the field and they thought they did not want to have much of an umbrella over them, and they reduced the price at that time.

We followed—we reduced our price, I think $1, and remained $1 higher than them until I think February, when we finally had to come down to meet the main competition price.

There is an excerpt from the previous hearings of the committee that I would like to read. This is the testimony of Donovan Wilmot, vice president of Alcoa, given on May 24, 1955, during the hearings on the aluminum industry before Subcommittee No. 3 of the Select Committee on Small Business, as reported in the hearing volume at pages 265–266 and pages 271–272.

The question was asked by Mr. Sheehan:

I want to know how much Alcoa is a competitor with the end manufacturers. If my memory is right, at one time you did manufacture aluminum furniture, didn't you?

Mr. Wilmot answered—

Yes, what I said was this. We do not make any so-called end products, fully fabricated products such, for instance, as furniture or refrigerators or windows or screens, or things of that sort, or storm doors, ourselves. We supply the raw material in whatever form is required. In some cases, it might be sheet, in other cases, it might be rod and bar, in some cases it might be extruded shapes. There are one or two exceptions. You mentioned, I believe, furniture. A good many long years ago we thought there was a very substantial and attractive market for aluminum in the form of furniture. No one else thought so. So we began to hammer out some chairs ourselves. It attracted notice and it began to be popular. But we felt that that was not a field in which we properly belonged, that was a matter of distribution and merchandising. We felt that our type of operation didn't lend itself to that, so we sold out lock, stock, and barrel, in that particular case to General Fireproofing Co. of Youngstown, who continued that line, and all we do is supply them with the raw material, we don't make any furniture ourselves.

We do make an item like beer barrels in aluminum, and maybe we have a subsidiary that makes cooking utensils, but that is about all.

Mr. YATES. I hear you are going to make beer cans, too.

Mr. WILMOT. I don't know, we are casting an eye in that direction.

Mr. Sheehan asked—

Being in the beverage business, I understand they are going to make beverage cans. Inasmuch as your company does not deal to a very large extent in the end products such as you mentioned, it would seem to me that there would not be any particular reason for you to deny extruders materials in order to substitute your own end products.

Mr. WILMOT. Let me say the more people who will make things out of designed end products, such as any of these things that we have mentioned, screens, storm doors, and windows or what not, the better we like it. In fact, we have—and I can't say about the others—but for as many years as I can remember, we have had a sales development division which includes as many as 100 people, all told.

Those are trained engineers who will go out and work with small fabricators—in fact, actually design things for them, lend them technical aid, in order that they can put that article on the market. And we, in turn, then take our chances on our ability to sell them the mill products or whatever it is that they need to produce it.

Mr. YATES. Apparently Alcoa changed its mind.

Mr. SUGAR. Right. I can say over the years that we have been a very large user of aluminum. Mr. Fred Close, vice president of Alcoa, said to me that our company did more to put aluminum under the noses of the American public than any other company, and has great confidence that we shall continue to develop more in the future. We can truthfully say that Alcoa has never lent us any such aid at any time. But the local sales representation have always tried to stop us from any moves that we would make into integration, even though we thought that was the only way that we could ever stay in business. We feel that today, with the Kaiser Co., we have a lot more confidence that they can truly feel and understand our position and do not intend to compete with us at our level, unless they are forced to do so.

Mr. YATES. Do you have other contracts with other companies like the one you have with Mastic?

Mr. SUGAR. No, we do not. That was the only one that we had. That was taken strictly on an overhead basis. The original contract called for overhead plus $1. Then it was gradually reduced and reduced as the price kept coming down, to a point where it just carried overhead, if it did that.

Mr. YATES. Do you feel you are competing with Alcoa or with the five companies now?

Mr. SUGAR. Well, the actual competition, as we look at it is, with the five companies being subsidized, because the price that they can sell it for, and we know of cases where these companies have made deals way below the established list price, such as taking someone from the purchasing company—that is, the company that purchases the product—and putting them on their payrolls, and things of that nature, so that it is almost impossible for us to compete with that competition.

Mr. YATES. I did not understand that.

Mr. SUGAR. For instance, they have a customer. They do not want to break the price, the low Alcoa price. This is done without Alcoa's knowledge, I am sure. They will take one of their men and put them on their payroll.

Mr. YATES. That is an interesting variation.

Mr. SUGAR. There are all kinds of angles.

Mr. YATES. Do you know this as a matter of fact?

Mr. SUGAR. Well, I cannot prove it, but I know it.

Mr. DALMAS. In view of Mr. Sugar's testimony with regard to prices, I am interested to know, not necessarily your cost secrets, but the steps that you go through from the time that you put the pig in the cupola, or whatever you melt it in, until you get to this coil that we are talking about.

Do you have a formula?

Mr. SUGAR. Yes. Well, when you say a formula, it is an alloy that is used. We use two or three different alloys for a different product. Primarily we start off—as I say, we buy pig or ingot from companies like Kaiser, Alcan, Olin Mathieson, whom we buy from. This is then put through our melting process and we manufacture what we call a rolling slab. We do not have facilities to manufacture all that we need, so we buy the biggest——

Mr. DALMAS. Please let us leave out the part you buy, and let us get on to this coiled strip.

Mr. SUGAR. We make this slab. We then heat it in a heating oven, bring it up to temperature, and put it through a hot rolling process. This reduces this slab from a slab of about 5 to 6 inches thick, down to one that is an eighth of an inch thick, and in a coil. It then goes through what we call cold-reducing. Rather, it is annealed first and then goes to cold-reducing mills, which brings it down to the desired thickness, such as 24 thousandths, which we presently use.

Mr. DALMAS. Well, given the price of pig, can you, by means of a formula, sit down and figure out what the price of this coil should be, going through these various steps? For example, take 26 cents, the present price. Can you sit down with a formula, a mathematical formula, and come out with the price of your coil?

Mr. SUGAR. Roughly.

Mr. DALMAS. What it costs you and what it should sell for?

Mr. SUGAR. Well, we figure that our coil costs us, at the present time, just—and that does not include financing charges and depreciation——

Mr. DALMAS. The point, Mr. Sugar, that I am trying to make is, given the price of pig, can you, with a mathematical formula, figure out what the price would be?

Mr. SUGAR. Yes, sir, I can do that a good deal.

Mr. DALMAS. Thank you, Mr. Sugar.

Mr. SUGAR. I would say that our costs of processing through the finished sheet is 8 cents a pound.

Mr. DALMAS. Thank you, sir.

Mr. YATES. Thank you very much, Mr. Sugar.

Mr. GOODMAN. May I add something as though it were Mr. Sugar's statement?

Mr. YATES. Will you identify yourself for the record, please?

TESTIMONY OF SAUL W. GOODMAN, GENERAL COUNSEL, ALSCO, INC., NEW YORK

Mr. GOODMAN. My name is Saul W. Goodman, general counsel for Alsco.

Mr. YATES. Where do you live, Mr. Goodman?

Mr. GOODMAN. New York City, 67 East Rockaway Road, Hewlett, Long Island.

Mr. YATES. What is your relationship?

Mr. GOODMAN. General counsel for Alsco. My office is 30 Broad Street, New York, N.Y. I want to add something as part of Mr. Sugar's statement, because we have discussed it.

Mr. Chairman, you may recall that several years ago, there was a decree, an open decree, by which the court kept alive its injunctive powers.

Mr. YATES. You mean the *Alcoa* case?

Mr. GOODMAN. In the *Alcoa* case. The idea was to stop or create further competition in the industry. After a while it seems to have been felt by the court that the conditions had become competitive, and there was no longer need for the decree's continuance. The number of manufacturers started producing, speaking particularly of this industry, a number of manufacturers got into the siding business, and they started to develop their business and began to grow. Based upon the record of Alcoa and its policy, it seemed to be that they were once and for all out of end products to a great extent, that they were concerned mainly with the production of the raw materials, or perhaps up to sheet, and that they would no longer compete with the small fabricator, as witness the statement which Mr. Sugar read a short while ago from the testimony in 1955, before the Subcommittee No. 3 of the Select Committee on Small Business.

Now, Alcoa spent a lot of money to set itself up and to expand its siding business. So did United States Aluminum, and as the previous witness has indicated. Now, explaining Mr. Sugar's previous statement, when he said that he does not know whether there was any intention on the part of Alcoa to do any wrong or not to do any wrong, regardless of either, it was their intention to change their policy, or if it was not their intention, certainly, the same effect upon the small businessman would result.

First, there was—they were subsidizing, it appeared that they were subsidizing or were in a position to subsidize one end of their business, mainly the production of raw aluminum and sell it at a price, a higher price, make a profit there, and then subsidize the end product, the production of siding, even at a loss to themselves, in order to gain a foothold in that market at the expense of a number of small fabricators of siding.

Now, even if they find that they made a mistake, as they did in the furniture business, according to the testimony previously mentioned, and a year or two later they find that they made a similar mistake and to go out of it, they say, well, we made a mistake along the way, and even if it was not their intention, along the way they were hurting a number of small fabricators by reason of the things mentioned by Mr. Sugar and the previous witness. Or it could have this result, to force Kaiser and Reynolds to follow suit and likewise to go into the production of the end product, which it appears has

not been their intention and does not presently appear to be their intention, again, to hurt, which would result in a hurt to the small producer or to the larger producer, or the independent producer of siding. Those are the things which we think are wrong.

If Alcoa would stop now, before it is too late, the hurt would not be as great as if they discover later on, a year or two later, that they should not have gone into the business in the first place, as Kaiser may have done a number of years ago.

I would like to add that to what Mr. Sugar said.

Mr. YATES. Thank you for your argument, Mr. Goodman.

Thank you, Mr. Sugar, for your testimony and for giving us the benefit of your experience.

Mr. SUGAR. Thank you, Mr. Chairman.

Mr. YATES. We have one more witness to be heard now, and then we shall recess until tomorrow. We have Mr. Walter A. Edwards, who is Deputy Assistant Secretary of Commerce for Domestic Affairs.

TESTIMONY OF WALTER A. EDWARDS, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AFFAIRS; ACCOMPANIED BY RAUER MEYER, DIRECTOR OF THE INDUSTRIAL, SCIENTIFIC, AND TECHNICAL DIVISION OF THE OFFICE OF EXPORT SUPPLY, BUREAU OF FOREIGN COMMERCE, AND MORRIS BAILKIN, CHIEF, PROGRAM AND REQUIREMENTS BRANCH, ALUMINUM MAGNESIUM DIVISION, BDSA

Mr. YATES. Mr. Edwards, we are sorry that we kept you waiting so long, but we are glad to have you now present your testimony.

Do you have a statement?

Mr. EDWARDS. Yes, I do, and I should like to read it.

Since the later part of 1959, when it became evident that aluminum scrap was being exported from the United States in growing volume, the Department of Commerce has been watching closely the impact of this movement upon the domestic supply of scrap. Concern has been expressed over the higher level of exports by certain segments of the U.S. aluminum industry—the secondary smelters—who use aluminum scrap as a raw material.

In July 1959 the Aluminum Smelters Research Institute recommended to the Department of Commerce that exports of aluminum scrap be restricted under the Export Control Act, on grounds that they were, in the opinion of the institute, assuming such proportions as to constitute "an excessive drain of scarce materials," and to reflect an abnormal foreign demand which threatened to have an inflationary impact on the economy. This proposal was given careful consideration by the Department, including consultation with domestic producers, smelters, and exporters. A survey of key countries was undertaken to ascertain foreign requirements for aluminum scrap from the United States. The Department found, however, that conditions did not justify placing aluminum scrap under restrictive export quotas at that time, but kept the matter under surveillance.

In view of continued increased exports in recent months and a renewed request by the institute on January 26, 1960, to impose restrictions, the Department of Commerce on February 18 revised its ex-

port control regulations to require exporters of aluminum scrap to file with the Department an extra copy of their export declaration covering all shipments of such material. This was designed to enable the Department to maintain its information respecting the level of exports on a much more current basis than otherwise possible, and to move quickly in the event export restrictions became necessary.

A review of these declarations indicates that shipments of aluminum scrap are continuing at a relatively high rate. Notwithstanding this, domestic supply and demand are in balance and are expected to remain so, so far as we can foresee now. The fact that prices have changed very little in recent months during which exports have been relatively high is evidence of this balance. In these circumstances, it must be concluded that aluminum scrap is not in short supply in this country and that exports have not prevented domestic industry from acquiring adequate scrap for its operation. The Department of Commerce accordingly believes that it is not necessary at this time to invoke the authority granted under the Export Control Act of 1949, as extended, and to use export controls—

to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign demand.

Details relating to previous short-supply controls over aluminum scrap and to the present supply-demand situation may be of interest to the committee.

From the middle of 1954 through 1957 exports of aluminum scrap were restricted for short supply reasons. Limitations ranged from open-end quotas (that is, no quantitative limitations) to a quantitative quota of 8 million pounds per quarter. The Department removed quantitative supply controls on aluminum scrap at the end of the second quarter, 1957, and the open-end quotas established for the third and fourth quarters of 1957 expired on December 31, 1957.

Aluminum scrap was removed from the positive list effective November 10, 1958, inasmuch as neither strategic material nor scarce material considerations applied. Exports to Soviet bloc countries require specific export authorization, but there have been no requests from this area since controls mentioned above were removed.

Aluminum scrap exports in 1959 were significantly higher than during the preceding few years, as table I in the appendix demonstrates. From 1955 to 1958, scrap exports averaged about 37.3 million pounds per year. In 1959, however, exports increased sharply, particularly in the last part of the year, to the point of totaling 64.8 million pounds. The bulk of the exports went to West Germany, Italy, and Japan. (See table II.) Shipments so far in 1960 are averaging approximately 11 million pounds per month.

A significant portion of scrap presently being exported however, consists of scrap generated by aluminum producers, known as run-around scrap. It is questionable whether much of this scrap would find its way into the hands of the secondary smelters if it were prevented from being exported.

Considered in relation to the amount of scrap available in the United States, exports do not appear excessive. For 1959, exports amounted to 5.6 percent of total scrap supply. The comparable figure for 1958 was 4.1 percent. In January and February 1960, exports amounted to about 9 and 11 percent, respectively.

These 1960 exports, however, as noted above, are known to include company "runaround" scrap, estimated to be a significant proportion of the total. If this runaround scrap, which does not appear in the domestic supply statistics, were excluded from the export statistics, as it should be for proper comparison, the percentage for 1960 would be reduced substantially.

Despite the increase in exports of aluminum scrap since July 1959, there is no clear evidence that the secondary smelters cannot get adequate quantities of scrap. Their inventories at the end of 1959, in fact, were higher than for any of the preceding 6 years. (See table I.) The inventory figure for the end of January 1960, the latest available, was only slightly below the December figure, which was the high for 1959. Moreover, scrap dealers have indicated that they can supply without difficulty current demand for both domestic and export needs.

The history of recent aluminum scrap prices supports the view that there is no domestic scarcity of this material. Prices of new aluminum clippings, for example, have changed little since May of 1959. As table I indicates, the price increased only one-half cent per pound in December, held at this level in January and February, and then fell off during March and April. The April price is closely comparable to the price range for 1957 and 1958, and substantially below the highs for 1955 and 1956.

These in brief are the factors which lead the Department to conclude that the present supply-demand situation in aluminum scrap does not warrant imposition of short-supply controls. There are, of course, additional considerations which persuade us that the export limitations sought by the Aluminum Smelters Research Institute would not be in the best interest of the United States.

Restricting without demonstrable justification the movement of aluminum scrap abroad would, for example, be inconsistent with the program for expanding U.S. exports in general which the executive branch of Government is currently emphasizing. If we are to be successful in persuading other countries to remove or reduce their restrictions on trade with the United States, we ourselves must avoid engaging in similar restrictive practices to protect home industry, unless application of controls is clearly called for under the terms of the Export Control Act.

Mr. YATES. Thank you, Mr. Edwards.

Miss Reporter, will you put tables I and II, which are attached to Mr. Edwards' statement, into the record at this point?

(The tables referred to are as follows:)

TABLE I.—*Aluminum scrap statistics*

[Amounts in thousands of pounds]

	Domestic scrap consumed	Exports	Imports	Scrap inventories of smelters	Price of new clippings [1]
1953	826,666	9,162	53,242	29,278	$10.50–$17.06
1954	701,030	78,676	[2] 29,690	24,288	13.25–16.375
1955	[3] 980,000	36,581	[2] 81,559	26,262	16.375–24.00
1956	1,034,000	38,659	[2] 51,984	38,350	17.50–24.00
1957	1,064,000	36,331	[2] 32,541	40,134	17.00–18.50
1958	860,000	37,812	19,843	42,992	15.25–17.75
1959	1,078,000	64,777	21,838	52,094	17.25–18.50
January	84,000	3,421	1,274	36,872	17.25
February	82,000	2,751	931	35,896	17.25
March	90,000	4,666	2,475	36,134	17.25
April	98,000	3,515	2,104	38,746	17.25
May	96,000	3,798	1,929	39,720	17.25–18.00
June	100,000	4,693	2,883	40,046	18.00
July	90,000	4,351	1,142	47,690	18.00
August	88,000	5,158	3,176	46,492	18.00
September	90,000	7,163	2,007	49,436	18.00
October	94,000	7,011	1,274	49,184	18.00
November	80,000	8,248	1,202	51,176	18.00
December	86,000	10,000	1,440	52,094	18.00–18.50
1960:					
January	100,000	10,177	1,217	50,210	18.50
February	[3] 96,000	11,755	806	[4]	18.00–18.50
March	[3] 96,000	[3] 11,000	[4]	[4]	18.00
April	[3] 96,000	[3] 11,000	[4]	[4]	17.50–18.00

[1] Quoted wholesale buying prices in American Metal Market, alloys 1100(2S), 3003(3S), 6151(51S), 5052 (52S); prices are low and highs, in cents per pound.
[2] Includes "starter" metal classified as scrap.
[3] Estimated.
[4] Not available.

Sources: Bureau of Mines, Bureau of the Census, and Business and Defense Services Administration.

NOTE.—Because or rounding, details may not add to totals.

TABLE II.—*Aluminum scrap exports by country of destination*

[Thousands of pounds]

	Total	Canada	West Germany	Italy	Japan	Nether-lands	United Kingdom	Other
1953	9,162	248	1,811	1,086	5,420	357	310	130
1954	78,676	386	49,389	18,383	4,271	1,046	----------	5,201
1955	36,581	386	28,536	4,872	----------	129	59	2,599
1956	38,659	2,471	15,733	11,567	6,374	305	28	2,181
1957	36,331	515	16,279	5,555	10,623	196	35	3,128
1958	37,812	729	22,188	9,253	4,073	215	816	538
1959	64,777	842	27,327	10,461	16,671	991	6,389	2,096
January	3,421	31	1,205	1,134	696	----------	----------	355
February	2,751	123	453	1,002	1,065	----------	----------	108
March	4,666	78	768	2,615	740	167	----------	298
April	3,515	55	1,218	642	811	----------	789	----------
May	3,798	31	1,214	482	1,497	----------	514	60
June	4,693	35	1,523	378	2,601	101	51	4
July	4,351	82	1,129	295	2,079	81	427	258
August	5,158	87	2,372	282	1,368	346	691	12
September	7,163	98	4,219	621	1,532	107	490	96
October	7,011	105	3,867	259	1,236	54	1,169	321
November	8,248	31	5,064	760	1,631	135	618	9
December	10,000	86	4,294	1,991	1,414	----------	1,639	576
1960—								
January	10,177	41	4,672	2,653	2,339	----------	401	71
February	11,755	95	6,208	3,069	1,455	----------	873	55
March [1]	10,688	----------	4,005	2,835	1,970	----------	1,345	533

[1] Export declarations as received by Bureau of Foreign Commerce.

Source: Bureau of the Census.

NOTE: Because of rounding, details may not add to totals.

(The following table is a revision submitted for the record subsequent to the hearing:)

TABLE II.—*Aluminum scrap exports by country of destination*

[Thousands of pounds]

	Total	Canada	West Germany	Italy	Japan	Netherlands	United Kingdom	Other
1953	9,162	248	1,811	1,086	5,320	357	310	130
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1958	37,812	729	22,188	9,253	4,073	215	816	538
1959	64,777	873	28,048	10,483	16,682	991	6,649	1,051
January	3,421	31	1,433	1,134	696	----------	----------	127
February	2,751	123	453	1,002	1,065	----------	----------	108
March	4,666	78	768	2,615	740	167	260	38
April	3,515	55	1,218	642	811	----------	789	----------
May	3,798	31	1,214	504	1,497	----------	514	38
June	4,693	35	1,523	378	2,601	101	51	4
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1960—								
January	10,177	41	4,672	2,653	2,339	----------	401	71
February	11,755	95	6,208	3,069	1,455	----------	873	55
March [1]	15,233	158	5,390	3,920	2,223	290	2,995	327
April [1]	10,285	----------	4,334	3,131	2,317	55	409	39

[1] Export declarations as received by Bureau of Foreign Commerce.

Source: Bureau of the Census.

NOTE: Because of rounding, details may not add to totals. 1959 figures are as revised.

Mr. YATES. Are declarations of export required for shipments of scrap by companies that have affiliates in other countries?

Mr. EDWARDS. Yes; any export of scrap is.

Mr. YATES. Any export, even though it is to the companies' affiliate in the other country?

Mr. EDWARDS. Yes.

Mr. YATES. So the figures appearing in tables I and II are total figures? There is nothing that is not included in these tables?

Mr. EDWARDS. That is correct, sir.

Mr. YATES. There has been, as you point out, a very significant increase in scrap during December—it started, I guess, according to table II in September and then moved up to December, to 10 million pounds in the category. If this keeps up during the current year, it will be the greatest year of export of aluminum scrap in the last 8 years, anyway; will it not?

Mr. EDWARDS. I believe so. Of course, we went to these countries, through our embassies, and asked some countries, the biggest users, primarily West Germany, Italy, and Japan, what the situation was in their country. Here, I might say, is a reply from Bonn, West Germany, unclassified. It reads in part, to show you where we did get this statistical information:

Association official estimates some increase scrap aluminum imports into the Federal Republic will take place this year compared with 1959 but estimated total of 1960 requirements will not continue anywhere near same rate noted for period January 1–April 20. All aluminum scrap imports will be for domestic consumption.

That is about the same reply we received from Japan.

Mr. YATES. The demand in West Germany is falling off, will fall off?

Mr. EDWARDS. As of the second quarter of this year, they estimate it will fall off drastically.

Mr. YATES. Is that true of Japan and Italy, also?

Mr. EDWARDS. I can read you that reply, also unclassified. They anticipate large allocations primarily aluminum for the first half of 1960 of 9,000 metric tons, will reduce sharply the import requirements for aluminum scrap after May 1960.

Mr. YATES. That was from what country?

Mr. EDWARDS. That was from Tokyo. Italy did not have any statistical data to support the case one way or another. These are, necessarily, estimates.

Mr. YATES. Well, I am grateful to you for coming in and giving us this information, Mr. Edwards. It will be very helpful. I did not know whether you heard the testimony of Mr. Burton of the Aluminum Smelters Research Institute, in which he viewed the trend with alarm?

Mr. EDWARDS. Yes.

Mr. YATES. Of course, what has happened in the last few months would justify, I think, his alarm, but I think the statement that you have given us to the effect that it is anticipated that these imports from the main importing countries will fall off, I think, will give him and his group some reassurance.

Do you have any questions, Mr. Dalmas?

Mr. DALMAS. I have no questions, Mr. Chairman, but I think this release should be put in the record, showing the new export requirements.

Mr. YATES. A release issued by the Department of Commerce on February 17, 1960, showing new requirements for export of scrap may go into the record at this point.

(The release referred to is as follows:)

DEPARTMENT OF COMMERCE,
BUREAU OF FOREIGN COMMERCE,
Washington, D.C., February 17, 1960.

EXPORTS OF ALUMINUM SCRAP SUBJECT TO NEW REQUIREMENT

Effective February 24, exporters of aluminum scrap are required to submit a fourth copy of their shipper's export declarations to U.S. collectors of customs, the Bureau of Foreign Commerce, U.S. Department of Commerce, announced today.

The new requirement applies to all export shipments of aluminum scrap, including those to Canada.

The Bureau cautioned exporters that failure to submit the additional copy might result in delay of shipments. The extra copy should bear the notation "FC–2630" in the upper right-hand corner.

The additional copy is required to enable BFC to compile more up-to-date statistics on aluminum scrap exports and thus maintain a closer watch over the volume of shipments.

U.S. exports of aluminum scrap have risen substantially in recent months, BFC said. While exports averaged less than 5 million pounds a month in the first 9 months of 1959, they jumped to 7 million in October, to more than 8 million in November, and to 10 million in December.

Today's announcement is published in BFC's Current Export Bulletin No. 829, dated February 17.

Mr. YATES. Have you concluded your testimony, Mr. Edwards?

Mr. EDWARDS. Yes.

Mr. YATES. I thank you very much for coming and giving us the benefit of your testimony.

Mr. EDWARDS. Thank you, sir.

Mr. YATES. The committee stands in recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:35 p.m., the committee recessed, to reconvene at 10 a.m., May 4, 1960.)

SMALL BUSINESS IN THE ALUMINUM INDUSTRY

WEDNESDAY, MAY 4, 1960

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE NO. 3, ON FOREIGN TRADE AND
FOREIGN AID OF THE SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 1301, New House Office Building, Hon. Sidney Y. Yates (chairman of the subcommittee) presiding.

Present: Representatives Yates, Multer, and Derwinski.

Also present: Katherine C. Blackburn, research analyst; Marie M. Stewart, clerk; and Victor P. Dalmas, adviser to the minority members.

Mr. YATES. The committee will come to order.

Mr. Multer asked for the opportunity to ask some questions of Mr. Edwards yesterday, and apparently we recessed a little too early. We are grateful to Mr. Edwards for making himself available this morning, and I believe, Mr. Edwards, if you are ready, Mr. Multer, you may proceed.

Mr. MULTER. Thank you, Mr. Chairman. Mr. Edwards, I am sorry to have inconvenienced you by bringing you back again. I thought we would try to finish with you yesterday and we appreciate your coming back.

TESTIMONY OF WALTER A. EDWARDS, DEPUTY ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AFFAIRS—Resumed

Mr. EDWARDS. Yes, sir.

Mr. MULTER. Mr. Edwards, I read your complete statement you made yesterday, as well as answers to the questions put to you by Mr. Yates, and I would like to ask some additional questions to clear up the record if we can.

You refer in your statement to "runaround" scrap. What is the difference between "runaround" scrap and any other scrap in the aluminum industry?

Mr. EDWARDS. Home scrap, which is commonly called runaround scrap, is consumed in the company of generation, whereas other new scrap is consumed elsewhere after sale to another company. In other words, runaround scrap is that scrap consumed in the company of generation.

Mr. MULTER. When it comes to the actual use of the scrap, there is no difference between runaround scrap and new scrap, except new scrap may need some cleaning up before they can use it.

Mr. EDWARDS. No.

Mr. MULTER. Otherwise, it is used exactly the same; is it not?

Mr. EDWARDS. Yes, sir.

Mr. MULTER. Well, now then, what gives rise to your assumption, as you stated on page 4 of your statement, that it is questionable whether much of the runaround scrap would find its way into the hands of secondary smelters if it were prevented from being exported?

Mr. EDWARDS. Actually, there are no data available to indicate whether or not this runaround scrap flows into the domestic market. We think there is one producer that ships most of it in the export market. The data are not available because being one company this would be a disclosure of confidential information. Actually, we do not normally get that even from the Census Bureau, and there is no breakdown.

Mr. MULTER. You do not mean that you couldn't find that out from an exporter because it is producing the scrap itself and exporting it from this country? You are certainly entitled to know how much scrap is being sent out of the country.

Mr. EDWARDS. We are not entitled to know, to obtain data from our Census Bureau because it is thought that there is only one company exporting the majority of this runaround scrap, and therefore this would be a disclosure of confidential information.

(On May 18, 1960, subsequent to the date on which Mr. Edwards testified, he requested the following substitution: "Mr. Edwards. We are entitled to know, but because there is only one company exporting the majority of this runaround scrap, we are not in a position to disclose this confidential information. We can find out from the export declarations how much is being shipped.")

Mr. MULTER. You mean to say in the administration of the Export Act you have no right to call on that company and ask them how much scrap they are exporting?

Mr. EDWARDS. Certainly we could get it through our export policy, but we cannot disclose that amount.

Mr. MULTER. I am not asking for disclosure, but why don't you know what it is? You are telling me now you don't know or do I misunderstand you?

Mr. EDWARDS. We do know, I understand, from the export declarations how much is being shipped.

Mr. MULTER. Well, then, I think you ought to supply to this committee the information, unless it is confidential, of how much runaround scrap is being exported. On the other hand it may be quite unimportant and quite immaterial.

Scrap is scrap as I see it, no matter where it originates when it is ready for use by the aluminum smelters, and it does not matter where it comes from and if the total amount of scrap exported including the runaround scrap is disproportionate to the needs of the domestic smelters, I think the Export Control Act requires the Department to do something about it.

You did it in 1957, I think; am I not right?

Let's just look at the tables as to the production of scrap in this country and its export. In 1957 there were 921 million pounds of scrap produced, aluminum scrap produced in this country, and in that year, there were 36 million pounds exported.

Now, wasn't that the year that you—or was it 1954 that you put on your export controls on scrap?

I think we had better go back to 1954. It was from 1954 to 1957 you had controls limiting the export of aluminum scrap; am I not right?

Mr. EDWARDS. We started in 1955; in the second quarter, yes, of 1955.

Mr. MULTER. Yes, in 1955.

Mr. EDWARDS. Yes.

Mr. MULTER. That was on the basis of the fact there were some 78 million pounds of aluminum scrap, exported from this country in 1954 as against a total production of aluminum scrap that year of 672 million pounds. Am I right, sir?

Mr. EDWARDS. Yes; that is right.

Mr. MULTER. Now in 1955 the aluminum scrap produced in this country increased to 851 million pounds, but the exports decreased to 36 million pounds. In 1956 the exports were approximately the same as the prior year, and the production of scrap was about the same, and then again the exports in 1957 were about the same as the prior year, 1954, 1955 and 1956 with exports about half of what it had been in 1954 and in 1957, the production of scrap increased to 921 million pounds; am I right, sir?

Mr. EDWARDS. Yes, sir.

Mr. MULTER. We go to 1958 and we find the production of scrap dropped off by almost 200 million pounds to 742 million pounds produced in this country, 1958. Again I am right?

Mr. EDWARDS. Yes.

Mr. MULTER. And our exports remained approximately the same.

Mr. EDWARDS. Yes.

Mr. MULTER. As in the 3 prior years. When did you take off the export controls?

Mr. EDWARDS. The third quarter of 1957.

Mr. MULTER. 1957.

Mr. EDWARDS. Yes.

Mr. MULTER. Am I right that in this industry the price of aluminum scrap responds to the law of supply and demand? When the demand exceeds the supply the price goes up, and when the demand is less than the supply and the supply exceeds the demand the price drops.

Mr. EDWARDS. I would say so.

Mr. MULTER. Well, now, with a drop of, from 1957 to 1958 of our production of almost 200 million pounds, we then go to 1959 when it increases again by 200 million pounds to 935 million pounds produced and in 1959, with your controls off now, the export of the scrap doubles approximately; right, sir?

Mr. EDWARDS. Yes.

Mr. MULTER. It goes up to 65 million pounds.

Mr. EDWARDS. Yes.

Mr. MULTER. Now, 1960, do we have any idea of what the production of domestic scrap will be; do we have any estimate on that?

Mr. EDWARDS. We have in January; it was 100,000—100 million pounds. It is estimated that in February it was 96 million, and we estimate March and April at 96 million.

Mr. MULTER. What is the estimate for the balance of the year, or take it for the entire year 1960, what do we anticipate our domestic scrap production will be?

Mr. EDWARDS. About 10 percent higher than 1959.

Mr. MULTER. That would bring it up to about 960 million pounds.

Mr. EDWARDS. We would estimate about 1,200 million.

Mr. MULTER. Well, now, if you found it necessary to impose your controls as the result of some 78 million pounds of export of scrap in 1954, and exports going to 65 million pounds in 1959, immediately after taking off the controls and with an estimate of 120 million pounds for 1960, don't you think the time has arrived when you have got to call a halt again?

Production is going to go up 10 percent, and we are going to have 50 million pounds more exported than in 1954 if this estimate is true, and that will be almost double of what it was for 1959.

Mr. EDWARDS. Some of this explanation is to be found in our table I to the statement. The prices were going up quite rapidly in 1955 and 1956. They increased from—in 1954 the price was as low as 13.25 cents per pound. It went up in 1955 to 24 cents per pound.

Mr. MULTER. What is it now?

Mr. EDWARDS. At the present time around 17.5 to 18 cents.

Mr. MULTER. Is there any change from last year in price?

Mr. EDWARDS. Last year, almost none, sir.

Mr. MULTER. Under the Export Control Act, of course, you must take into account both the domestic need and the inflationary impact.

Mr. EDWARDS. Yes.

Mr. MULTER. Isn't it fair to assume that in Germany—West Germany, I am talking about—Italy, and Japan, which are three of the countries you mentioned yesterday, in answer to Chairman Yates' question, isn't it fair to assume in those countries their demand for aluminum is going to increase, their production is going to increase, their requirements for scrap are going to increase?

Mr. EDWARDS. Very much so, I would say as regards total aluminum. As I read yesterday, the consumption of scrap in Japan and West Germany, they thought it would go down drastically after the middle of the year.

Although their consumption of aluminum may go up they do and are expected to import much more primary aluminum and generate more of their own.

Mr. MULTER. Well, I think rather than rely on the statement that these local consumers these foreign countries have given us, we must be more realistic about it.

I have been through most of those countries, through several of them as recently as last December and I was very happy to see their industry booming and very proud of the job we in the United States did to restore to them their industries and bring in new ones. They are doing a fine job, and every expectation is that they are going to continue to improve. We all want to see them improve. But not at the expense of our home industry. If they are going to continue to boom as apparently they are, I don't think we can take their estimates. After all they know when our Embassy, our commercial attachés are inquiring "How much do you expect to use of this scrap next year or the balance of this year," they know they have already doubled 1958 and 1959. In 1959 they doubled their 1958 imports, and they know they are now going at a rate again of double of 1959 which is almost four times 1958, I don't think they would say anything else to us except "We don't expect to use as much" because they don't want to see these restrictions imposed that we imposed in 1955.

Mr. EDWARDS. If you will refer to our table I, the exports are going on now at the same rate as in December of 1959 according to current

information. The scrap inventories of smelters are also holding high, which indicates that there is no shortage of scrap.

Mr. MULTER. Yet the industry here is concerned about it. The witnesses who testified here expressed deep concern about it.

Mr. EDWARDS. We fail to find any great shortage of scrap. Perhaps in the future, which we certainly are going to keep an eye on.

Mr. MULTER. I am just wondering. If the fact is that when exports went to 78 million pounds in 1954 that required you to impose the restrictions. Now having gone in 1955, to 65 million pounds which was almost where we were in 1954, and now going beyond that even if we don't go to the estimated 120 million pounds this year, but we take the word of those who gave the information to our Embassies abroad that they are right, that they will not continue anywhere near the same rate noted from the period January 1 to April 20, 1960, as against 1959, isn't it nevertheless time come to call a halt? We are right back where we were in 1954.

Mr. EDWARDS. In 1955 the scrap inventories of smelters was 26 million pounds. In January of this year it was 50 million pounds. Also in 1955, there was a drastic price increase, and there has been no price—a negligible price increase only in the last 2–3 years.

And apparently the total supply of scrap is increasing all the time.

Mr. MULTER. Can you tell us whether or not the determination to do nothing at this time with reference to the export controls on aluminum scrap is the judgment of the Department of Commerce or has it, at least in part, been influenced by either the State Department in its desire to aid countries abroad, or by the Treasury Department's concern about the balance of payments?

Mr. EDWARDS. This is by the Department of Commerce, sir.

Mr. MULTER. And quite independent of what the other two departments desire in this field?

Mr. EDWARDS. Yes, sir.

Mr. MULTER. Thank you, sir. Thank you, Mr. Chairman.

Mr. YATES. Any questions?

Thank you very much, Mr. Edwards.

Mr. EDWARDS. Thank you, sir.

Mr. YATES. Our next witness is Mr. Joseph H. McConnell of the Reynolds Metals Co. Mr. McConnell, we are delighted to have you before our committee again and we know you share our desire to obtain as much information as you can give us of the aluminum picture.

We have been favored in the past from a great deal of information when you testified and we look forward to your testimony again.

You may proceed.

Mr. MCCONNELL. Thank you, Mr. Chairman.

TESTIMONY OF JOSEPH H. McCONNELL, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL, REYNOLDS METALS CO.; ACCOMPANIED BY GUSTAV B. MARGRAF, GENERAL COUNSEL

Mr. MCCONNELL. My name is Joseph H. McConnell. I am an executive vice president and general counsel of Reynolds Metals Co.

I had the privilege of appearing before this committee in November of 1957, when the committee was considering the future of the aluminum industry and the position of small business in that future.

I am happy to appear again before the committee to discuss some of the developments in the industry since your last hearings and give you our views on those subjects which Congressman Yates has stated the committee is interested in at this time.

During 1957 when I last appeared before your committee, aluminum consumption in this country was just under 2 million tons. This was short of the 2,050,000 tons of the peak year of 1956.

In 1958 the usage fell still further, but 1959 was a year of recovery in which aluminum consumption in the United States was 2,477,000 tons, according to Department of Commerce figures.

If our anticipation of a 10 percent increase this year turns out to be correct, aluminum usage here in 1960 will total about 2,700,000 tons. That would amount to a growth of 35 percent in 3 years. I am sure you will agree this is very substantial and should be gratifying to all those in our industry.

In spite of variations in the tempo of our economy, which affect the timetable of aluminum's progress, aluminum is a rapidly growing industry and we look forward to further substantial growth in the years ahead.

Because of its many inherent advantages for an unlimited scope of applications there is vast room for further penetration by aluminum.

In my remarks to your committee back in 1957 I said:

> The story of the aluminum industry has been one of energy, enterprise, ingenuity, and risk. The key to the future lies in the industry's ability to continue to create and expand regular peacetime markets.

I also pointed out that the primary producers had done most of the research, advertising, and market development work which expanded postwar markets 135 percent over their size in 1947.

In naming the major market areas slated for expansion, I promised that—

> Each of these major markets will have individual attention, special research and product development. They will involve technological problems ranging from basic metallurgical questions at the primary aluminum level to fabricating techniques and new or better finishes.
>
> The aluminum industry will not stop there. It will take these improved products, methods, and finishes and sell them—sell them to fabricators and manufacturers, and sell them to ultimate customers.

We have been busy doing these things since 1957, and the result is greater consumption of aluminum, benefiting not only the primary producers but also the hundreds of nonintegrated fabricators of semifinished aluminum and over 25,000 firms which manufacture aluminum end products.

I think it would be appropriate to review for you today the major market breakthroughs and new products which this research and market development work have achieved since 1957.

First I will discuss the automotive field.

Probably of greatest significance in the automotive field was the advent last year of the aluminum automobile engine, in the Chevrolet Corvair. Another famous automobile name, the Rolls Royce, also adopted the aluminum engine in 1959.

The Corvair engine is made from molten aluminum supplied by Reynolds' new reduction plant at Massena, N.Y. It is undoubtedly the first of many aluminum engines in American cars.

I do not wish to impinge on the province of the automobile company executives who will appear before your committee.

However, published statements in the automotive trade press indicate that at least two more lines of cars will have aluminum engines in

1961 models. I think it is also safe to surmise that within 3 years every major American car manufacturer will have at least one line of aluminum engines.

Aluminum engines are one of the major developments which were anticipated when the first molten metal contract was made with General Motors for our Jones Mills plant in Arkansas 10 years ago.

As this committee knows, our sales of molten metal were extended through a contract with the Ford Motor Co. in 1955 for aluminum from our Listerhill plant in Alabama and a contract with General Motors in 1957 for aluminum from our new plant at Massena.

Those contracts provided automobile companies most importantly with their first assured source of long-term stable supply to enable the long-range planning and justify the huge capital investment required, as well as an incentive to expand their use of aluminum for such castings as transmission cases.

As this was being done, improved technology in working with aluminum was developed which spurred additional new uses.

I said in my 1957 testimony that one new use for aluminum in automobiles begets others and that the molten contracts would accelerate the use of more aluminum parts in automobiles.

That is precisely what has happened, to the great benefit of all segments of the aluminum industry.

In castings alone, this year's models exhibit new and expanded uses of aluminum for oil pumps, carburetor bodies, fuel pumps, generator and starter end plates, and power-train components. There are also such new uses for aluminum castings as those which make up an improved type of alternating current generator, an intake manifold, a cast integral wheel and brakedrum, and a windshield wiper body.

Since 1957 there has been a step-up in automotive trim made from aluminum sheet, and in extruded parts such as grilles, window frames, and decorative appliques.

These and many new casting applications like rocker arms, water outlet elbows, water pump housings, pinion carriers, and others have brought increased business to secondary smelters, aluminum foundry companies, and nonintegrated fabricators of semifinished aluminum.

For example, when one of our molten metal customers converted its transmission cases to aluminum in 1958, much of the business went to outside nonintegrated suppliers.

This largest single aluminum casting component is now being manufactured by at least three outside nonintegrated sources geographically distributed through the central area of the casting industry.

In the diecasting industry, published reports of the American Die Casting Institute's annual review for 1959 show that the consumption of aluminum for diecastings increased 29 percent over the 1958 output.

This was only 1 percent short of the peak year of 1957, when aluminum diecastings consumed 202,350 tons of aluminum.

According to the reports, the automotive industry continued to be the largest single consuming area, taking about 45.4 percent of the aluminum diecastings. The review noted that passenger car production in 1959 was up 32 percent over 1958 while automotive consumption of aluminum diecastings increased 38.3 percent.

We do not have comparable figures for the other segments of the industry, but it is reasonable to assume that they have benefited from the greater use of aluminum in automobiles.

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We are convinced that the molten aluminum contracts had a great deal to do with this upsurge in use of aluminum. They have helped the auto companies in mass production of aluminum parts, and to think in terms of aluminum and discover new uses which would provide better values for the public.

Important objectives currently occupying the attention of research departments include aluminum mufflers, bumpers, radiators, all-aluminum wheels, and aluminium body segments such as trunk lids and hoods. These projects require the mastering of technical obstacles through development of entirely new manufacturing methods and creation of designs which combine economy with superior performance.

Such research is time consuming and expensive, but it must be done and we must bear our share of it to provide larger automotive markets for ourselves and our fabricator customers.

The automotive industry, which used 145,000 tons of aluminum in 1957, is expected to use about 230,000 tons in the current model year. If 1961 is a good year for autos, this should increase to 300,000 tons. Based on present and projected uses, by 1965 the figure should be about 650,000 tons—an increase of 180 percent over this year.

In other transportation industries, the research and market development work of the primary aluminum producers has spearheaded a number of breakthroughs since your hearings in 1957.

In the railroad industry there have been several major developments, including aluminum loader beams for freight cars, aluminum inner liners to protect boxcar walls and—most important—the first large order for aluminum freight cars.

The 1,200 aluminum hopper and gondola cars now in service on the Southern Railroad will prove the aluminum car's advantages of increased payload, reduced maintenance costs, and longer car life.

Only a few weeks ago we announced plans for two aluminum barges, the first in the United States. Five large freight-passenger vessels with aluminum deckhouses, made from extrusions are under construction.

CONSTRUCTION INDUSTRY

The construction industry is the largest market for aluminum and has grown substantially—from 462,000 tons in 1957 to 600,000 tons in 1959, with a further boost to 700,000 tons expected this year.

Aluminum's entry into new home construction is the biggest factor. This breakthrough is the culmination of residential market development programs started by the primary producers 10 or more years ago, which have become a three-pronged effort involving new products, substantial promotional expenditures, and new distribution systems to make aluminum products more readily available.

The housing industry, like the automobile industry, is an outstanding example of how numerous nonintegrated aluminum fabricators are profiting from the primary producers' research and market development expenditures.

We, and other producers, originated such products as aluminum windows, clapboard siding that looks like wood, watertight interlocking roof shingles, soffit and fascia systems, ductwork, flashing, and insulation. These products were advertised and promoted and

small manufacturing and sales firms sprung up to enter the markets thus created.

In the last 2 years, the primary producers have launched major promotions, like Reynolds' "House of Ease," built around the concept of the all-aluminum house.

Heavily advertised and publicized nationally and at the local level, these programs are winning public acceptance for the whole gamut of aluminum building products. As a result, the business of non-integrated fabricators is expanding and new fabricators are entering the picture constantly.

The development of aluminum sheet with baked-on enamel finishes made it possible for new small firms to fabricate siding and other products with only a nominal investment in forming or stamping equipment. They do not need expensive painting operations.

By investing millions of dollars in large automatic paint lines, the primary producers reduced the cost of various aluminum building products and thus broadened the market for them, and at the same time enabled small- and medium-size firms to fabricate for these markets.

OTHER BREAKTHROUGHS

The electrical industry is another arena of aluminum progress. The use of insulated aluminum distribution and service-drop wire and cable is steadily increasing.

In 1959, aluminum conduit, made by the extrusion process, began replacing other types of conduit because of its low price and light weight.

Other developments in the last few years include the first distribution transformer housing, the first aluminum switchgear enclosures, and lower cost aluminum substations and transmission towers—all made from extrusions.

Several unique designs for all-aluminum highway bridges have been developed in the past few years. Although more research and testing remains to be done in this field, we think aluminum designs will prove out as more economical than steel.

In the oil industry we now have large-diameter aluminum pipe, aluminum offshore oil-drilling platforms, oil country pipe, "heavy end" extruded pipe for stronger welded joints, and automatic welding machines for aluminum pipe.

Among the research projects we have underway are aluminum drill pipe, a lightweight drilling rig which could be flown in by helicopter, and plastic-coated and plastic-lined pipe.

PACKAGING

The packaging industry in total dollar volume is second in size only to the food industry. Aluminum is a growing factor in some of the largest segments of the packaging industry—aluminum foil in flexible packaging, folding cartons, and semirigid containers; aluminum sheet and slugs in the manufacture of aluminum cans; aluminum circles, castings, forgings, and extrusions in kegs and cases; and aluminum sheet in caps and closures.

The expanding business for aluminum in these areas has been stimulated by many new and improved products resulting from research by Reynolds and other companies in the packaging field.

In 1957 we obtained from Esso Standard Oil a breakthrough order for aluminum oil cans, and this application is now well established in the oil industry. Now the aluminum can has moved into the beer industry, into aerosol products, and frozen fruit juice concentrate.

We are currently constructing a container development center in Richmond to develop new and improved types of aluminum cans and containers. Even if only 10 percent of the can market switched from steel to aluminum, this would require 200,000 tons of aluminum a year.

In the foil packaging field there have been such developments as foil bread wrap, boilable pouches, foil cartons, embossed bottle labels, foil-polyethylene combinations for a wide variety of protective packaging, and improved machinery with which food packers handle packaging in their plants.

GIFT WRAP

In gift wrap, we have devoted a great deal of effort to improving the product and creating a bigger market for this use of aluminum foil. Substantial advertising and promotional work is involved.

In this field as in others, this market development will undoubtedly result in a greatly enlarged acceptance of the product. If the usual sequence of the events holds true, small fabricators and converters of aluminum foil will begin making and selling gift wrap and benefit from this development work and expenditure.

ADDITIONAL COMMENTS

I have dealt in such detail with these recent developments in the aluminum industry because I feel it is important that the committee have before it the full perspective of the industry and in order to appraise the relative positions of the primary producers, out of court, have benefited from these developments, but no more than other groups in the industry.

In the invitation to our company to appear before this committee, Chairman Yates referred to certain specific subjects which include—

the extension of hot metal contracts, the accelerated mergers and expansions, the complaints of an alleged price squeeze by small independent fabricators, and the increase in the export of scrap.

There has been no extension of our molten metal contracts since I appeared before this committee in 1957. Our contract with General Motors for molten metal at Jones Mills, Ark., is presently due to expire on June 30 and we are currently in discussions with representatives of that company for extension of the agreement.

We have had no mergers and no domestic acquisitions of any significant size. Our purchase last year of something less than 50 percent of the stock of the British Aluminium Co. abroad has been widely reported in the general press.

Our acquisition of the stock of Arrow Brands in 1956 has received much more attention than the matter deserves and has been the subject of a proceeding at the Federal Trade Commission.

The facts are a matter of public record at the FTC, we have appealed from the decision of the Commission and the matter is now pending in the Court of Appeals for the District of Columbia. For that reason I do not believe it would be appropriate for me to discuss the merits of the case.

From the commercial standpoint Arrow Brands is not significant in our business. The case is important only in the legal principles involved. We believe the Commission was right in the first instance when, after a thorough investigation, it advised us that it was closing its file in the matter.

We believe it reached the wrong factual conclusions from the record and that its decision was wrong under the law.

THE ALLEGED PRICE SQUEEZE

It is difficult to talk about something which does not exist. There is no price squeeze that I know of.

Certain groups in the industry have been making this charge for years, apparently with the thought that if it is repeated enough someone will believe them.

Now there has been added the completely false charge that three of the primary producers are trying to force the independent extruders out of business. This, of course, is not true.

No group in the aluminum industry has grown as the independent extruders have. According to the Government figures the industry output has more than doubled in the past 5 years and the number of extruding firms has increased by more than 52 percent. Since 1950 the number has increased about 260 percent, from 36 to 129. Even since 1958 when the last hearings of this committee were held, the number has increased from 120 to 129.

Correspondingly the percentage of extrusions supplied by the independent extruders has increased steadily since 1950. In that year they accounted for 34 percent of the total shipments, and in 1959, 54 percent. Between 1950 and 1959 their output increased 465 percent while shipments of extrusions by the primary producers increased 150 percent.

Speaking for our company, we do not control the prices of extrusions. The price levels in reality are determined by the independent extruders. We cannot set our prices above the levels maintained by the independent extruders and continue to stay in the business. Moreover, it is fairly safe to assume that if the price of pig were reduced the independent extruders themselves would lower the prices of extrusions and the margin between the two would remain substantially the same as now.

Our price of pig today is no more than it was 2½ years ago. Without including the last round of wage increases, the composite of the aluminum industry's major cost items is up 93 percent from the 1947–49 base period average, but the composite of major product group prices is up only 51 percent.

Aluminum is still a growing industry. Its continued success depends upon its ability to do a better job, and to do it more economically. The consumer must get a better value.

This means there must be substantial expenditures for product and market development by producers and fabricators. The money must

come from adequate prices for the whole range of aluminum products. At the same time these prices must be kept at such levels that the products can be sold in competition with other materials.

The alleged problem of the extruders in our opinion lies with themselves. The answer is to be found in their own pricing structure.

EXPORT OF SCRAP

I have nothing to say about increase in the export of scrap. We do not export any scrap and therefore we have had no such increase.

Mr. YATES. Thank you for your excellent statement, Mr. McConnell.

It gives us a very good picture of what has been going on in the aluminum industry since the last hearing.

Mr. MCCONNELL. Thank you, Mr. Chairman.

Mr. YATES. You say you do not export any scrap. Is there no shipment of any scrap from your companies to British Aluminum?

Mr. MCCONNELL. No, sir.

Mr. YATES. They do their own scrap buying or scrap making and gathering?

Mr. MCCONNELL. That is right, sir.

Mr. YATES. In their own market?

Mr. MCCONNELL. Yes, sir.

Mr. YATES. Mr. Kellers who was in here gave us some testimony about the way in which aluminum castings are moving more and more to plants rather than being fabricated by independent fabricators.

I note your statement on page 5 to the effect that there are tremendous numbers of new castings being made, and that the type is increasing, too, the variations. You do not agree with the statement, I take it, that it is attributable to the hot metal contracts that were entered into by your company with Ford and General Motors, this shift in the production of castings.

Mr. MCCONNELL. First of all, I am not sure that I agree there was a shift. He has got some—I looked at that table.

Mr. YATES. Did you look at his chart?

Mr. MCCONNELL. I looked at his table in testimony even though I was not here, and he has of course some percentage figures there which would tend to justify his conclusion perhaps, but I am not so sure those percentage figures can be relied on to reach the conclusion which he does. There are a lot of reasons why the percentages might vary from time to time, from year to year.

First of all, I think you have got to look at the volume figures rather than the percentage figures, and then secondly, there may be explanations of various kinds which have no relation to the molten metal contracts at all. One thing, of course, is, the number of cars made goes up and down as they did during the years which he has listed there.

Mr. YATES. Well, the advertisements which the committee has seen indicate that General Motors is going into a strong program of selling castings throughout the industry, presumably, and impliedly from Mr. Keller's testimony, this was attributable to the hot metal contract.

I wonder how extensive the General Motors move in this direction will be and what effect it will have on the diecasting industry.

Mr. McConnell. Well, I am not sure—I think the automobile people can answer these questions much better than I can, of course, and I would defer to them in that regard, but I would rather doubt they have gone into the extent of sale of aluminum castings to the extent he said, but I think it would be preferable if they answered that rather than I.

Mr. Yates. The staff hands me copies of advertisements from various automotive trade journals which indicate that the Central Foundry Division of General Motors is going into an extensive diecasting program. They have advertisements for brake drums and flywheel housings, vane segments, rear bearing retainers, automotive pistons.

I do not know that there is anything wrong with General Motors going into the diecasting industry except, of course, the committee is interested in the impact this might have on the independent diecasters.

Mr. McConnell. As I say, I think maybe I had better let the automobile people who know more about that answer their own questions, but I rather doubt there has been any extensive sale of castings by them in any regard, and certainly I don't think it has any relation to the molten-metal contracts.

Mr. Yates. Of course, Mr. Kellers contended that molten-metal contracts did give a price advantage to those who received them.

Incidentally, while we are on the molten-metal contracts, were you apprised of the testimony of Mr. Starr in attempting to obtain a molten-metal contract for his group?

Mr. McConnell. Yes.

Mr. Yates. What was the background? Can you tell us more about that as to why they were turned down?

Mr. McConnell. I don't know that he has ever been turned down. I don't know that he ever made an offer to buy.

Mr. Yates. Well, he made an offer to negotiate, according to the correspondence.

Mr. McConnell. Well, he wrote what he called a certified letter to us in which he indicated, as I recall, that he had some possible interest in negotiating with us for hot metal.

Shortly after we had—I rather took it when he sent the certified letter he was somewhat more interested in writing the letter than he was in negotiating. We never have heard from him since that correspondence in 1958. I don't know quite what we would do if he came up with some proposals in that regard, I don't know, but we have never had any suggestion, really concrete suggestion that he does want to buy molten metal that I know about.

Mr. Yates. You have a feeling then this was not an offer in good faith?

Mr. McConnell. I don't want to say it wasn't in good faith. I just don't——

Mr. Yates. You just indicated he was more interested in letter-writing than——

Mr. McConnell. I don't know that it was a serious offer in any event, but I wouldn't want to say he operated in bad faith, Mr. Chairman.

Mr. Yates. Suppose the extruders did want to enter into a hot metal contract, would Reynolds be interested?

Mr. McConnell. I think we would be interested. Whether or not we would find after we investigated it in complete detail we should do it, I would be unwilling to say at this time, sir. There are quite a few ramifications to the molten-metal contract. There are pros and cons in that regard from the viewpoint of the purchasers as well as ourselves.

There has been no great extension of the molten-metal contract. There has been nothing done about it since we have been here last time.

Mr. Yates. That is what I understood with respect to Reynolds, but of course Alcoa is going into the field. It has got some hot metal contracts that it is entering into and I was wondering whether or not Reynolds had any additional hot metal contract in the offing?

Mr. McConnell. None that we are negotiating or know about at this time, sir.

Mr. Yates. I do not know whether Mr. Starr is in the room or not, but I am sure he or someone who represents him will read the testimony, but in the event he was serious in his efforts to try to negotiate a hot metal contract, would Reynolds be willing to listen to him?

Mr. McConnell. We would be willing to listen to him, of course, sir, but I would not like to say when we got through with the entire negotiations that neither he nor Reynolds would be interested in going ahead with the contract.

Mr. Yates. There is no effort on my part to try to force any kind of a contract on you, but I wondered as to whether or not, as to what the basis for a hot metal contract might be with any prospective purchaser.

Mr. McConnell. Well, it involves a very heavy commitment on the part of the purchaser in order to have a hot or molten metal contract, as you know.

Mr. Yates. Well, the exchange of correspondence which I am sure you are aware of indicated that there was not any serious acceptance on the part of Reynolds. Was there not that intimation in it, in your judgment?

Mr. McConnell. Well, I don't think anything very conclusive happened, I agree with that.

Mr. Yates. I asked Mr. Starr on page 150 of the transcript why he did not take the suggestion of the committee in our first report when we had suggested to the extruders to pool their requirements, try to get a contract from Reynolds or from Alcoa, which would permit them to take advantage of the difference between the price of molten metal and pig, and he said:

> A hot metal contract was not available to us, sir. We could have pooled to buy metal at the market price, which would have helped us, perhaps, had there been a period of shortage.

Then I said:

> You say a hot metal contract was not available to you. As I remember the testimony before the committee, I was under the impression that it was available to anybody who wanted hot metal.

Is my impression of your testimony here when you were last here I asked you about furnishing hot metal to the Government at that time and you indicated the Government did not want it or, rather, had not asked for it?

Mr. McConnell. I don't think they would want it either.

Mr. Yates. Yes, and that gave me the impression that there was the opportunity offered to those who might want it, presuming they could come forward with sufficient basis for negotiating a firm contract, to get one from the company.

Mr. McConnell. Well, the molten metal contracts are certainly well publicized, and we offered them to all of the people in the automobile industry and actively tried to sell them, and were only successful with these three contracts, one small, three contracts that we have, and we have never had any serious discussions so far as I can recall with anybody else who indicated any interest in a molten metal contract except this rather desultory correspondence that we had with Mr. Starr.

Maybe there are some others that I am not familiar with, but I am sure there have been no serious discussions with anybody seeking a molten metal contract.

Mr. Yates. Correspondence is very interesting on that, between Mr. Shaw and Mr. Starr.

May I ask you about the other testimony of Mr. Starr in respect to his testimony that almost every other semifabricated item had gone up in price except that of that of 6063 billet. I think that this resulted in a price squeeze.

Is there anything unusual in the fact that all other, apparently all other items have gone up and 6063 billet has not? Would it help if I reread his testimony?

Mr. McConnell. Yes. I am not familiar with it.

Mr. Yates. Here is what he says on page 107 of the transcript:

> Independent custom extruders are confronted by a price squeeze which appears to be practiced uniformly and concertedly by Alcoa, Reynolds, and Kaiser, and has been exerted progressively against independent extruders since approximately 1951. This squeeze is accompanied by practices, reported by members of the Aluminum Extruders Council, on the part of some or all of the Big Three, which appear to be illegal price discriminations and sales of extrusions at unusually low prices, and indeed below cost, for the purpose of destroying the competition of independent extruders.
>
> Some time before 1951, the Big Three began to raise published prices of aluminum products so that the spread between 6063, that is an alloy, extrusion billet, the principal raw material used by custom extruders, and common 6063 extrusions, was narrowed from approximately 17 cents a pound to as little as 9 cents a pound by 1957. Within this same period, the Big Three increased the published prices of most semifabricated products by 30 to 36 percent.
>
> Thus, between January 1, 1949, and March 1, 1955, the price of reroll slab was increased by 36 percent, the price of reroll coils by 36 percent, the price of forging stock by 33 percent, the price of sheet by 34 percent, the price of electric conductor cable by 32 percent, the price of foil by 35 percent.
>
> In contrast, the Big Three increased their price of common 6063 extrusions by only 10 percent, while they increased the price of pig, the raw material of independent extruders, by 34 percent, and billet, an alternate raw material of independent extruders, by 36 percent.

Mr. McConnell. Well, I misunderstood your question before.

Mr. Yates. I probably did not phrase it correctly.

Mr. McConnell. No, sir. Well, the reason for that is that the extruders fixed these prices, and if the primary producers can't sell it for any more than that price, they can't increase the price. These prices are fixed by the independent, nonintegrated extruders. We can't sell for any more than they sell for and that is the reason the prices don't go up.

Mr. YATES. Then this is the case of the independent exerting price leadership rather than the primary producers exerting price leadership?

Mr. MCCONNELL. Certainly, and that is their real trouble that they blame us for, I think.

Mr. YATES. Well, are you suggesting that in this field, as in the field of the sale of primary metal where there is a price leadership and if one of the primary producers either raises or lowers his price, the other producers will follow within a few days. This happens, too, with respect to extrusion matters where you have independent extruders varying their prices, the primary producers will follow suit.

You are saying, actually, the primary producers are not actually the leaders, but the followers?

Mr. MCCONNELL. You can't sell an extrusion which is identical with that of another individual at a price higher than his, and these independent extruders have had lower prices and the primary producers have had to meet those prices.

Mr. YATES. That is an interesting thought. We were under the impression that the primary producers were the leaders in this field as well.

Mr. MCCONNELL. No, sir.

Mr. YATES. Is this not unsual, is it not unusual that the extruders would keep this level for their product when the price of pig goes up? The price of a pig or billet goes up.

Mr. MCCONNELL. I don't know whether it is usual or not. It happens to be the case in this situation.

Mr. YATES. When you increase the price of pig, do you also increase the price of 6063 billet?

Mr. MCCONNELL. Yes, we do, that is what we are saying. Yes, we do.

Mr. YATES. Did you also increase the price of your extrusions at that time?

Mr. MCCONNELL. I think efforts were made to increase the price for extrusions at that time, but I do not think the efforts prevailed because the independent, nonintegrated extruders did not increase their price.

Mr. MULTER. On that very subject, Mr. McConnell?

Mr. MCCONNELL. Yes, sir.

Mr. MULTER. Is it not the fact that the so-called nonintegrated extruders must fix the price of their product in their market to meet the price that is being asked for your end product?

Mr. MCCONNELL. I beg your pardon?

Mr. MULTER. You sell end products in competition with extruders, do you not?

Mr. MCCONNELL. Yes, sir.

Mr. MULTER. Well, does not the price fixed by the nonintegrated extruder follow the price that you fix? Must it not meet that price?

Mr. MCCONNELL. No, sir.

Their price has been below the price which we have tried to set, and so far as Reynolds is concerned, and I cannot speak for the other primary producers, so far as Reynolds is concerned we have had to lower our price to meet the price of the so-called independent ex-

truder. We haven't done too good a job of competing with them either, as you can see from the figures. They have grown much more than we have in that field.

Mr. MULTER. Has Alcoa or Kaiser done a better job than you have done in competing with the extruders?

Mr. MCCONNELL. No, I don' think so.

When I speak of the competition, I speak of the primary producers.

As I indicated in my testimony, I think they have gone up since 1950 some 400 percent; we have gone up about 150 percent.

Mr. MULTER. Unless I misconstrue the testimony we have heard thus far at these sessions——

Mr. MCCONNELL. I beg your pardon.

Mr. MULTER. I say unless I misconstrue or misinterpret the testimony heard thus far in these sessions before this committee this week, the complaint seems to be that you raised the price of your billet and your raw material to the extruder, and cut the price on the end product which competes with them.

Mr. MCCONNELL. Well, maybe in the testimony——

Mr. MULTER. And they have to meet your lesser price, and they cannot possibly compete unless they meet your price, they cannot sell their product unless they meet the price, yet they have got to pay more for their raw material.

Mr. MCCONNELL. Well, that may be the testimony heretofore, but that, in my judgment, does not represent what the facts are. Because what has occurred is that we have increased the price of the primary metal, and we have made efforts to increase the price of extrusions, and when we have done so we have found the so-called nonintegrated extruder selling at a lesser price and we have had to reduce our price to meet his price.

Mr. MULTER. Let's take some of these items, item-by-item, that have been testified to here in these hearings. For instance, florist foil, do you say that applies to florist foil? Your price is following the price of the nonintegrated extruders.

Mr. MCCONNELL. Well, as to florist foil, which I don't think is what these people are talking about particularly that you referred to otherwise——

Mr. MULTER. I thought I heard them complain about florist foil.

Mr. MCCONNELL. We have had——

Mr. MULTER. You bought the Arrow Brand Co.?

Mr. MCCONNELL. We have had litigation about it.

Mr. MULTER. You have had litigation about it. But you are operating the Arrow Brand Co. today?

Mr. MCCONNELL. Yes, sir.

Mr. MULTER. Arrow Brand is making florist foil and selling it in the market and competing with these other people?

Mr. MCCONNELL. Yes, sir.

Mr. MULTER. Which price follows which, Arrow Brand follows their price or does their price follow Arrow Brand's?

Mr. MCCONNELL. Well, in our opinion, which I don't think is completely accepted by the Federal Trade Commission, and this matter is in litigation, as you know, in Arrow Brand we thought we followed the price initiated by importers of florist foil in order to meet the

foreign competition, and we do not think that Arrow Brand led in the price decline in florist foil.

Mr. MULTER. Is Reynolds selling Arrow Brand the same raw material at the same price it is selling to everybody else?

Mr. MCCONNELL. Yes, sir.

Mr. MULTER. How about siding, does Reynolds make any siding, aluminum siding?

Mr. MCCONNELL. No, sir.

Mr. MULTER. There is no competition there?

Mr. MCCONNELL. We sell to those who do, but we are not in the business ourselves.

Mr. YATES. Is there a relationship between Reynolds and Alside?

Mr. MCCONNELL. They are a customer of ours.

Mr. YATES. I want to ask about another statement of Mr. Starr. He points to what I just read and says:

> This is a situation when you look at the published prices.

He says—

> Thus there are many prices charged by the Big Three that have been even less. Thus there are very many commodity prices issued by the Big Three only to certain classes of customers.

What is a commodity price?

Mr. MCCONNELL. A commodity price, so-called in the aluminum industry, is a price fixed for a particular segment of some industry or for an industry.

For example, an example of that, Mr. Chairman, is the price fixed for the canning industry on canned stock. There is one price for canned stock and which applies only to canned stock.

Mr. YATES. Are these prices generally lower than the public prices?

Mr. MCCONNELL. Well, there is nothing secretive about them. They are made available to those in that industry, and sometimes they are low.

For example, in the canned stock prices are lower generally than the others brought about by the effort of the industry to get in the can business.

Mr. YATES. He says that the commodity price for 6063 extrusions to the truck trailer industry are approximately 4 cents or more a pound below the generally published prices.

Mr. MCCONNELL. That could be.

Mr. YATES. Why would you sell less to the truck trailer industry than you would to the extruders?

Mr. MCCONNELL. Because we are competing—most of these things are brought about by our competition with other metals or other industries. We are competing in the canned stock business, for example, with tinplate, we are competing in the truck body situation with other metals, steel and other metals, and we have to meet that competition. That is a primary reason for the commodity prices.

We have one in conduit, for example, where we are trying to get into—led by some other metal producers we are trying to get into the electric conduit industry and we have a different price there.

Mr. YATES. Does Reynolds sell primary metal abroad?

Mr. MCCONNELL. Some.

Mr. YATES. At a price below that which you sell at in this country?

Mr. McConnell. We sell at whatever price is the market price prevailing, as we have to.

Mr. Yates. Is that price generally lower than in this country?

Mr. McConnell. Well, it can be lower or it can be higher.

Mr. Yates. What has it been?

Mr. McConnell. In Italy, for example, it is somewhat higher than it is in the United States.

Mr. Yates. What?

Mr. McConnell. In Italy it is somewhat higher than it is in the United States.

Mr. Yates. What is it in West Germany, for example?

Mr. McConnell. Twenty-three and a half cents.

Mr. Yates. Which is what, 2½ cents below what it is here?

Mr. McConnell. Two and a half cents below our price in this country.

Mr. Yates. One of the witnesses testified it was cheaper to buy your metal from West Germany than it was in this country.

Mr. McConnell. Our metal?

Mr. Yates. Yes. Either yours or one of the Big Three metal. He said he could save a penny actually if he bought it from Europe and brought it back to Miami, even after paying the freight. And it was at that point that I read into the record a letter which I had received from one of the companies urging that a tariff be put on the import of foreign metal. I did not know whether or not this type of metal came within that category.

But, regardless of that point——

Mr. McConnell. Sometimes the prices abroad, as you know, they vary a great deal more than ours do. When metal is short they go much higher than ours, and when metal is in substantial supply sometimes they go low.

Mr. Yates. Mr. Multer.

Mr. Multer. Before you leave that point, Mr. Chairman, I would like to ask the witness, is it not a fact at a time when you were selling your aluminum pig or ingot in the United States at 26 cents, abroad you were delivering it at 23¼ cents a pound?

Mr. McConnell. That could be if that was the price over there we had to meet it if we were going to sell it.

Mr. Multer. Not could be, it was.

Mr. McConnell. Yes, I am sure it was.

Mr. Multer. And the freight on that item is about a half-cent a pound?

Mr. McConnell. That is about right.

Mr. Multer. So a half-cent a pound going and a half-cent a pound coming is 1 cent, 24¼ cents would be the total cost to buy it there, your own product, buy it there and bring it back, as against the price here of 26 cents.

Mr. McConnell. I wasn't aware that was going on, but if you say so, I will accept that.

Mr. Multer. That is the testimony before us.

What, if anything, can you do to correct that?

Mr. McConnell. You get into, Congressman Multer, the whole question of duties and so on which is a very complicated problem for us at this time. I am not sure I know the correct answer to that.

Mr. MULTER. I do not see any complication. I see a very simple problem of an item being produced here and sold at one price, being sold abroad and shipped abroad and brought back, reshipped back here at a lesser price.

I would like to know how you do it. If your price here is 26 cents a pound and you can sell it abroad at 23¼ cents a pound, there is a differential that our people at home are being required to pay that they should not be required to pay.

Mr. MCCONNELL. I suppose the only answer for us is not to sell abroad, which would mean our costs here would go up, we couldn't compete abroad as we should and we would have to lay off employees in our plants where we make the metal to ship abroad and I certainly don't think it would be a good thing for the aluminum industry as a whole.

Mr. MULTER. I cannot follow that.

Take just an arbitrary figure that you are producing, your capacity is a million tons, and you sell 900,000 tons here and you send 100,000 tons abroad and that 100,000 tons comes back again at a lesser price. It comes back only because the market here needs it and wants it. You still can produce and sell that million tons, otherwise the people here would not be buying the stuff abroad because they can save a penny a pound.

Mr. MCCONNELL. Well, we can't, as you know—I don't think that is completely true, sir. We have an oversupply of aluminum in the United States today.

Mr. MULTER. I can see where it is——

Mr. YATES. May I interrupt here a moment? If you have an oversupply of aluminum here today why was there a price increase from 24 to 26 cents?

Mr. MCCONNELL. As you know the price increase came from outside the country. I would say the reason we had the price increase is because the costs of the industry have gone up so substantially.

We have gone up as I pointed out since, what was our base figure 47–48, 47–48 our price has gone up about 50 percent and our costs have gone up about 93 percent.

Mr. YATES. As pointed out—will you yield for a moment?

Mr. MULTER. Surely.

Mr. YATES. It was pointed out in Mr. Starr's testimony and, of course, this was taken from our earlier hearings which in turn were taken from the decisions of the courts, that in 1949 costs in material, power, and manufacturing was about 11 cents a pound to produce primary aluminum pig which was sold for 16 cents in the United States. These costs are now about 15 cents a pound in primary aluminum pig which sells for 26 cents a pound. Even if 1 cent is added for U.S. freight this price provides more of a margin of about 60 percent. Is this an erroneous calculation?

Mr. MCCONNELL. Certainly. He has used what is called the mill cost price, and he has got nothing added in for selling, research, all of the administrative expenses that any business has, advertising, all of the necessary things that go on top of that. The production business today, the aluminum smelting business today is not a profitable business in the sense of being at the place where people want to put large amounts of capital with a high rate of return.

It is not just that kind of business today.

Mr. YATES. Why are so many companies going into it?

Mr. MCCONNELL. I don't think so many companies are going into it now. Some companies have in the last 3 or 4 years. It is not a high rate of return business.

Mr. YATES. What portion of your total costs is your mill costs?

Mr. MCCONNELL. Well, Mr. Chairman, I would rather not—that would tell what our complete costs are if I gave you that. If you would like for me to give it to you confidentially I would be glad to do that, sir.

Mr. YATES. All right. I was just interested. I understood that the cost of manufacturing this in most industries I would think would be the major part of the costs, I don't know what it is in aluminum.

Mr. MCCONNELL. I am sure it is the major part of the cost, but it certainly is not all of the costs.

Mr. YATES. All right.

Mr. MULTER. Is it not a fact that the 26-cent price was first fixed in December 1959 by Alcoa?

Mr. MCCONNELL. The 26-cent price, I suppose, was initiated by Alcoa, but as you will recall, Congressman Multer, what occurred was that in about—in April of 1958, Alcan, Aluminium, reduced the price of aluminum 2 cents a pound approximately, and then just prior to our price increase here in December of last year, they increased their price again.

Now their price in Canada is somewhat lower than our price, but in the relative, the relation between the two remained about the same.

Mr. MULTER. Now when they decreased their price, when Alcoa decreased their price, did Reynolds and Kaiser follow along and decrease their price too?

Mr. MCCONNELL. Yes.

Mr. MULTER. When Alcoa raised it in December 1959, Reynolds and Kaiser raised theirs.

Mr. MCCONNELL. Yes, I would say that Alcan was following the price generally.

Mr. MULTER. Who set the price in Europe when you set the price at 23¼ cents?

Mr. MCCONNELL. Well, it is set by various situations in the different countries.

Mr. MULTER. By cartels.

Mr. MCCONNELL. I beg your pardon.

Mr. MULTER. By cartels?

Mr. MCCONNELL. No, no, I didn't mean to imply that. But there are different companies in different countries who participate in the competitive situation and thus arrive at the price in their respective countries.

Mr. MULTER. Well, who of the three, the Big Three American companies were the first to fix the price at 23¼ cents abroad?

Mr. MCCONNELL. None of us.

Mr. MULTER. You just followed the prices as set there.

Mr. MCCONNELL. We followed it. Oh, yes, none of the American companies would be able to in any way, I don't think, affect the price abroad.

Mr. MULTER. What percentage of your total output was shipped abroad in 1959?

Mr. McCONNELL. Well, a relatively small amount. A relatively small amount.

Mr. MULTER. Would it be 5 percent or less, 10 percent or less?

Mr. McCONNELL. We shipped about 108 million pounds and I am just trying to find out what percentage it is but obviously that is a very small percent.

Mr. MULTER. If you would give us the total production we could get an idea.

Mr. McCONNELL. I was trying to get the exact figure. I am sure we have it some place. I will give you that figure, sir.

(Figure subsequently provided is 545,081 tons for 1959.)

Mr. MULTER. All right. Fine.

The point I have in mind is just this: You are entitled in all of your sales to fix the price that is going to give you full return of cost and all that goes into it, and I am using it in its most exclusive term or meaning, plus a fair return or fair profit. Now if 26 cents a pound reflects all of that, then 23¼ cents a pound must be reflecting a loss.

Mr. McCONNELL. I don't think the 26 cents is high enough to reflect adequate profit on our reduction plant.

Mr. MULTER. Well, we just assumed it's the old——

Mr. McCONNELL. It is all you can get.

Mr. MULTER. It is just the old theory that you can make a lot of money if you——

Mr. YATES. If this is true that 26 cents is not enough, then 23¼ cents is not enough.

Mr. McCONNELL. I don't think that it is either but we can't sell it at any higher than that.

Mr. MULTER. Is Reynolds operating at a loss?

Mr. McCONNELL. No, sir. But you are talking about primary metal now, as has been stated here elsewhere, I think, that in order to realize a profit in our industry you have to go into fabrication.

Mr. MULTER. Let me refer back for a moment to the hot metal contracts. Do I understand that the hot metal contracts with the automotive industry have not changed in terms or conditions since they were first entered into?

Mr. McCONNELL. Well, we have had a notice of cancellation of our Jones Mills contract from the General Motors Corp. as of the 30th of June, and we presently are negotiating with them to try to continue the contract.

Mr. MULTER. Those negotiations are still going on.

Mr. McCONNELL. Still going on.

Mr. MULTER. But with the exception of the notice of cancellation has there been any change in the terms of the contracts as they were submitted to us at the last hearings?

Mr. McCONNELL. I don't think there have been any changes. No, sir.

Mr. MULTER. Will you check and verify them?

Mr. McCONNELL. No, sir; there have been none.

Mr. MULTER. Now taking a prospective purchaser who is financially responsible, with a plant or plants able to use the hot metal for which they are about to contract, what objection would you have, would Reynolds have to entering into a hot metals contract with that company? I am talking now about someone outside of the automotive industry.

Mr. McConnell. Well, I am not sure we would have any objection if all of those assumptions that you made there would be present, but we have had nobody—we would like to call these molten metal contracts. You call them hot metal contracts.

Mr. Yates. All right, let's call it that.

Mr. Multer. Let's adopt your phraseology. I didn't mean anything invidious by "hot metal."

Mr. McConnell. I know you didn't.

Mr. Multer. We will talk about molten metal now.

Mr. McConnell. Those molten metal contracts have been so well publicized and we have had no serious requests on the part of anybody to negotiate for them, that we rather assumed that no one is interested.

Even the automobile industry, for example, we were only able to sell two companies. We were not able to sell all of them.

Mr. Multer. Well, now, I can understand you getting your back up when you get a certified letter from somebody who would like at least to give the appearance of wanting to negotiate.

They have no right to demand; they have a right to request that you sit down and talk to them, and I can understand you assuming when you get a certified letter that that is not a request but a demand. But what has your answer to it—having gotten over your mad, if you did get mad—what was your answer to their requests? We were told that you merely told them you were considering the matter. There are several letters that I suppose you saw?

Mr. Yates. For some time?

Mr. McConnell. For some time, and nothing really ever happened on his part or our part.

Mr. Multer. Did you make any inquiries as to whether or not this request came from a financially responsible group?

Mr. McConnell. Well, I don't think we would have to—we knew these people well enough, so I don't think we would have had to make too many inquiries about it. They have been, as I recall, customers of ours for some time.

Mr. Multer. Did you consider them financially responsible.

Mr. McConnell. I don't think, sir—and I don't mean to in any way speak in derogation of Mr. Starr's firm—that they would be in a financial position to take on a molten metal contract simply because of their size.

Mr. Multer. Was there any doubt in your mind as to whether or not they could use——

Mr. McConnell. I beg your pardon, sir.

Mr. Multer. Was there any doubt in your mind as to whether or not they could use the quantity of molten metal they were seeking to contract for?

Mr. McConnell. I don't think we ever got to the point of discussing as to what the amount was that they were seeking for, as I recall.

Mr. Multer. Has anybody else approached you other than Mr. Starr and his group?

Mr. McConnell. Not that I know of, sir.

Mr. Multer. Will you check your records and verify that?

Mr. McConnell. I certainly will, sir.

Mr. MULTER. Because our information is that others have approached Reynolds with a view to discussing and negotiating molten metal contracts——

Mr. MCCONNELL. I will check our files.

Mr. MULTER (continuing). And have been turned away. No question raised about the capacity or financial responsibility. They just were turned away.

Mr. MCCONNELL. Well, we will check that.

Mr. MULTER. Will you check that and advise us, please?

Mr. MCCONNELL. We certainly will, sir.

(The above-mentioned material was not available at time of going to press.)

Mr. MULTER. Now you, in connection with the alleged price squeeze that you referred to in your statement, you paint a rather glowing picture of the independent extruders and the progress they have made since 1950. I wonder if there is another side to the picture? Can you give us any statistics as to how many independent extruders have gone out of business and how many have gone into bankruptcy since 1950?

Mr. MCCONNELL. No, sir. But obviously there has been a great growth overall in the industry.

Mr. MULTER. With reference to the export of scrap, you say you don't export any. What do you do with your scrap?

Mr. MCCONNELL. Generally speaking, we use it.

Mr. MULTER. You don't sell it on the market.

Mr. MCCONNELL. We must sell some, but not a material amount. Off grade, low-grade dross we call it, but generally speaking we use our own scrap.

Mr. MULTER. Thank you.

Mr. YATES. Mr. Starr also made a few other points that I would like to ask you about, Mr. McConnell.

He said that some or all of the Big Three have been offering or granting free warehousing at the plants of customers. Does Reynolds do this with any of the customers?

Mr. MCCONNELL. We do not, that I know of.

Mr. YATES. Does—what is its practice with respect to advertising allowances?

Mr. MCCONNELL. We have advertising allowances as do most commercial concerns, as you know.

Mr. YATES. Do they vary from customer to customer?

Mr. MCCONNELL. Well, it may vary as between classifications of customers, but not within various classifications.

Mr. YATES. Is this roughly on the same basis as different prices for commodity; under commodity prices, for example, you have a different price for 6063 extrusions to truck trailers than you do to extruders?

Mr. MCCONNELL. What I was really referring to is when you get into the consumer items like foil you probably have some different advertising allowances than you might have, for example, in some of the other fabricated products.

Mr. YATES. Do you have comparable variations in financing your customers?

Mr. MCCONNELL. No.

Mr. YATES. What are your terms to your customers? Do you have one——

Mr. MCCONNELL. We have—I think we have the same for everybody.

Mr. YATES. The same credit proposals to everybody?

Mr. MCCONNELL. That's right, sir. I was thinking we might have some difference for the consumers' items like foil but I don't believe we do.

Mr. YATES. Mr. Caskie has given me a copy of the corporate acquisitions, or investments, by Reynolds since 1955, and without objection it may go into the record at this point.

We have this list and we discuss what should be done with it.

Apparently, the objection was made to the amount paid, and I think that is a valid objection and that column will be stricken and the balance of the information may go into the record.

(Lists of Reynolds Metals Co.'s corporate acquisitions or investments since January 1, 1955, follows:)

REYNOLDS METALS CO.

Corporate acquisitions or investments since Jan. 1, 1955

Name of company	Date acquired or investment made	Business
Reynolds Aluminum Co. of Canada, Ltd. (formerly Dominion Foils, Canada).	September 1955 (60 percent of common stock).	Sheet and sheet products; building products; foil and packaging.
Aluminio de Colombia-Reynolds Santo Domingo, S.A. (Colombia, South America.	October 1955 (51 percent)----	Sheet products and light extrusions.
Aluminum Extrusions de Venezuela, S.A. (Venezuela).	Organized December 1959 to operate machinery and equipment purchased from Siciliano Hermanos, C.A. (Venezuela).	Extrusions.
Reynolds-T.I. Aluminium, Ltd. (United Kingdom).	October 1957 (49 percent)----	Sheet products and extrusions.
Ordinary stock of the British Aluminium Co., Ltd. (United Kingdom).	January 1959 (approximately 47 percent).	Aluminum and aluminum products.
Arrow Brands, Inc. (California)----------	August 1956 (100 percent)...	Decorative foil.
Security Chain Link Fence Co. (Pennsylvania).	December 1956 (100 percent).	Chain link fencing and accessories.
Southern Gravure Service, Inc. (Kentucky).	June 1957 (100 percent)------	Rotogravure printing cylinders and engraving service.

Mr. DERWINSKI. Mr. McConnell, you have indicated throughout your prepared statement the fact that your aluminum industry is entering—to use your expression—many, many fields. You also stated in your answer to Mr. Yates, that in many cases the prices you set are intended to compete with other metals rather than competitive firms in the aluminum industry; is that the point you wish to make, sir?

Mr. MCCONNELL. Yes, sir.

Mr. DERWINSKI. In other words, would it be safe to say that you could not isolate the aluminum industry as such in discussing your prices and charges, we have to take into account other metals which you have to get.

Mr. MCCONNELL. Yes, we compete with other metals: copper, steel, and so forth. We compete with glass. We compete with plastics and any other container material that there might be—paper.

Mr. DERWINSKI. In discussing the future of the aluminum industry in the developments you are anticipating in the future, I find, in checking your testimony, it is apparent you intend to do so at the expense of other metals. That is this development body of your industry.

Mr. McConnell. Well, we are trying to develop the aluminum industry on as broad a base as we can to get it as close as we can to a mass production industry. Now in so doing, we make very effort to build our business wherever we think that aluminum is more suitable than some other material, and in most instances that would be in competition with other materials and other metals.

On the other hand, aluminum in relation to steel is so small an amount, for example, tonnagewise that while we might increase the total amount of aluminum substantially, I am not sure we would impinge to any great extent on the steel industry no matter if we accomplished what we sought.

Mr. Derwinski. Thank you, that is all, Mr. Chairman.

Mr. Yates. Mr. Dalmas?

Mr. Dalmas. Mr. Chairman, I have one question which has to do with prices. The committee has before now, Mr. McConnell, and in prior hearings, charges of price discrimination but actually the committee I do not believe has a yardstick by which it can measure whether or not the allegations are justified. Speaking for myself, the principal reason that I cannot make any determination is I don't yet know how you price your product.

We are all familiar with the steel industry pricing of metals where they have a base price for each commodity group, and they go on from there with extras for each variation in size, kind, and quality. If it is a fair question, Mr. McConnell, I would like to know exactly how the company, your company, goes about pricing its products. I recently saw two of your price books, and they were quite voluminous, quite extensive, and had apparently thousands of products and prices for such products.

So you must start somewhere and end up somewhere with a stated formula or pricing system.

I don't know whether this is something you would want to disclose publicly here at this hearing or whether it could be done privately with the staff or the committee, but I think it is important for the committee as well as for the industry for us to know just how these prices we are talking about become figures in a price book.

Mr. McConnell. Well, I will try, Mr. Dalmas to give you some indication of it, and I am not sure that it ought to be this way but that is the way it is, I think.

I don't believe there is any formula for doing it.

I think our price differentials—I assume you refer to the differentials between the various products. The price differentials have just grown somewhat in the industry over a long period of time, and have been accepted more on that basis than they have on very scientific bases.

Mr. Dalmas. Now the steel industry has a book of extras that thick [indicating].

Mr. McConnell. That's right.

Mr. Dalmas. You do not have such book of extras?

Mr. McConnell. No, sir. I don't think we do it on a very scientific basis, to be quite frank with you.

Mr. Dalmas. Mr. McConnell, I have jotted down three or four ways, one would be base prices for size, kind and quality with extras, and you don't do it that way. Another way would be a formula based on the published prices of pig or ingot and then a formula based on

cost of product, and a fourth way would be to figure each item, the price of each item on the basis of its marketability and customer acceptability. In other words, what the marketplace will stand price-wise. And then still another way as once in years past talked about down at the Federal Trade Commission and which you have touched on, is what they called, "conscious parallelism," that is, somebody else, the leader in the market, makes a price, and everybody else follows.

Mr. McConnell. I think, I should point out, if I may, that our industry is a relatively new industry, and of course Reynolds is a relatively new company in the aluminum industry. But even the industry is relatively new, and I think perhaps as in most new industries you start out to try to build your industry as best you can, with the competitive situation confronting you whatever that may be and I rather expect that the prices which, price structure which obviously was initially set by Alcoa which was the only company in our business at the beginning came about by the necessities of competition and their ability to sell their metal and it has kind of grown in that pattern since then.

Mr. Dalmas. You can see our dilemma, can you not, when it comes to trying to judge some of these charges thrown at the major companies who make the primary metal as well as the finished product?

Mr. McConnell. I do.

Mr. Dalmas. Is that as far as you care to go?

Mr. McConnell. I don't think I can go any further because I think that is just what has happened. The price structure has grown on the base of the competitive situation as the industry grew.

Mr. Dalmas. It grew like Topsy.

Mr. McConnell. Like Topsy, and I don't know how you change it at this point.

Mr. Dalmas. Thank you, sir.

Mr. Yates. I want to ask one last question, Mr. McConnell, with respect to the florist foil business.

Mr. McConnell. Yes, sir.

Mr. Yates. A witness testified before the committee that he was no longer having too much trouble with Reynolds Metals but it was having some trouble with Reynolds Tobacco.

Is there any relationship between Reynolds Tobacco and Reynolds Metals other than the blood relationship with the founders?

Mr. McConnell. No, sir; none at all.

Mr. Yates. They are completely separate entities.

Mr. McConnell. Completely separate entities, no relation whatsoever.

Mr. Yates. Neither between the officers and directors?

Mr. McConnell. No, sir. Mr. Reynolds, Sr., was a nephew, as I recall, of Mr. R. J. Reynolds and worked with Mr. R. J. Reynolds for a short time but there is no relation between the companies whatsoever.

Mr. Yates. Thank you, Mr. McConnell, very much.

Mr. McConnell. Thank you, sir.

Mr. Yates. The next witness we have on our list is Mr. Garwood of Chrysler.

Mr. Garwood, we welcome you back. We remember your testimony at the last meeting.

TESTIMONY OF M. F. GARWOOD, CHIEF ENGINEER, MATERIALS, CHRYSLER CORP.

Mr. GARWOOD. Thank you very much, Congressman Yates.

Mr. YATES. As I remember, the last time we wondered about whether you had a competitive disadvantage due to the fact that the other companies, automobile companies, had entered into hot metal contracts and you had not.

Mr. GARWOOD. That is correct.

Mr. YATES. I assume you are going to tell us about that.

Mr. GARWOOD. That is absolutely right. Thank you.

Mr. Chairman and gentlemen of the committee, my name is M. F. Garwood. I am chief engineer, materials, of Chrysler Corp. My office is at 12800 Oakland Avenue, Detroit 31, Mich.

My presence here today is in response to your written invitation dated April 20, 1960, to Chrysler Corp., requesting that a representative of the corporation appear before this committee to discuss the future uses of aluminum in our automotive products. I appeared previously before this committee on November 19, 1957, to make a presentation on the same subject.

I will review briefly some of the information I gave at that time and bring it up to date, and then discuss some new factors which have an effect on the overall consumption of aluminum in our automotive products.

The aluminum content by weight in our automobiles reached its peak in our 1957 models. This was the result of our extensive engineering effort to use lightweight materials wherever feasible in our cars. Through the years, we have been foremost among the auto producers in developing new automotive applications of aluminum and have led the industry in the quantity of this metal used on a per vehicle basis. We still do.

Using the same basis of comparison and computation on the same corporation car lines as presented in my 1957 appearance before this committee, the consumption of aluminum in the "average" Chrysler Corp. four-door sedan, equipped with a V–8 engine, automatic transmission and power steering is as follows (the Chrysler figures do not include the company's two entirely new lines for 1960, the Valiant and Dodge Dart):

[In pounds]

	Chrysler	Total industry
1960	83	51
1957	100	45
1955	73	30
1946	9	2

The estimated industry average figure for 1960 was obtained from the Aluminum Co. of America surveys which we have found to be reasonably accurate in estimating the aluminum content by weight in automobiles.

At the present time, it appears that any further large increases in aluminum content in automobiles will probably result from the adaptation of aluminum for such major car components as new engines, radiators, and bumpers and from future styling considera-

tions which could place greater emphasis on the use of aluminum as a major item for decorative trim materials.

During the past 3 years, the aluminum content has decreased in Chrysler Corp. automobiles. Corporation engineers continually reexamine parts from the standpoint of materials, designs, and manufacturing processes and evaluate these against the costs, performance, and quality of other alternatives. All the materials we use are constantly in competition with each other, and aluminum has been no exception.

Since we last reported to this subcommittee about our 1957 models, we have changed the materials from which many of our parts are made. Some of the major aluminum parts affected by these changes are shown below.

Examples of new aluminum applications

Parts	*Aluminum weight (pounds)*
6-cylinder intake manifold	6.56
Water outlet elbow	.34
Water pump housing	1.16
Distributor housing	.51
Oil pump body	1.54
Alternator housing	2.10
Instrument cluster housing	1.50
Seat back hinges	3.30

Examples of aluminum parts replaced by other metals

Parts	*Aluminum weight (pounds)*
Extruded window frames	19.0
Torque convertor reaction shaft	1.0
Hydraulic steering gear worm housing	6.5
Oil filter base	1.0
Transmission adapter plate	6.5
Valve rocker shaft bracket	2.0

For our 1960 as well as the previous model years, the aluminum content figures on a per car basis were computed to get an "average" of the combined individual and therefore differing aluminum weights found in our Plymouth, Dodge, De Soto, Chrysler, and Imperial cars. This can be seen from the following table which shows usage in a four-door deluxe sedan equipped with a V–8 engine, automatic transmission and power steering:

Model year	Plymouth	Dodge	De Soto	Chrysler	Imperial	Corporation car average
1960	68	72	86	88	99	82.6
1957	78	74	101	110	138	100.2
1955	68	70	73	76	80	73.4

It is interesting to observe that for Chrysler-built automobiles a certain pattern of aluminum use seems to be present. The smaller and lighter the car, the less aluminum it contains. The larger and more luxurious the car, the more aluminum it uses.

Mr. YATES. Why did you have less aluminum in 1960 than you did in 1957?

Mr. GARWOOD. I think, if you will look at the examples, you will find out that one reason is the extruded window frames, 19 pounds, which just about makes up for the difference.

Mr. YATES. I see.

Mr. GARWOOD. So far in our computations we have not included two very important new lines of cars that Chrysler Corp. introduced for 1960: The Valiant and the Dodge Dart. This was done for purposes of consistency in presenting for comparison the aluminum weights in our 1960 cars with those existing in previous model years.

The aluminum content in the Valiant presently follows the pattern just described. The four-door Valiant deluxe sedan with a standard six-cylinder engine and equipped with an automatic transmission and power steering contains 65 pounds of aluminum, while the similar equipped Dodge Dart has 70 pounds.

The corporation's low-price car lines, the Valiant, Plymouth, and Dodge Dart, are now accounting for the major part of total Chrysler Corp. automotive production. During the first quarter of 1960, these three models accounted for 81 percent of total corporate car assembly. This can be compared to our 1957-model production when the Plymouth, then the corporation's only entry in the low-price field, represented only 53 percent of total corporate automotive assembly.

Another important factor affecting overall aluminum consumption is the current reduction in the number of new car purchasers demanding automatic transmissions and power-steering units in the low-price models. These two optional features together contain heavy aluminum applications. When the public chooses manual transmissions and manual steering in place of optional units, the impact on aluminum can be seen from the following comparison.

Aluminum content in pounds

Torqueflite automatic transmission	36
Manual transmission	12
Difference	24
Power steering	2
Manual steering	0
Difference	2

Thus, when a consumer prefers to buy a V–200 Valiant four-door sedan with standard transmission and manual steering, he purchases a model that has only 39 pounds of aluminum, whereas, if he buys the V–200 with optional automatic transmission and power steering he has a car with 65 pounds of aluminum in it.

In addition, the lower-price models generally have less aluminum decorative trim than the larger-size models. The Valiant, Plymouth, and Dodge Dart are styled with 5 to 10 pounds of aluminum trim, while the De Soto, Chrysler, and Imperial are trimmed with between 12 and 25 pounds of aluminum.

At this point we would like to introduce what we at Chrysler believe to be a more accurate index of aluminum consumption by our company. This index takes into account the introduction of the entirely new Valiant and Dodge Dart cars and the consumer trend toward purchasing more lower price models with fewer optional features. By calculating our aluminum consumption on the basis of these factors, we have determined that approximately 71 pounds of aluminum are used on the "typical" or "composite" corporation car that is preferred in today's market.

This figure of 71 pounds per car was arrived at by estimating the aluminum use in our annual 1960-model-production volume for each make of car and by forecasting the volume of the optional features containing aluminum that will be built into each make of car.

The 71 pounds of aluminum on the "typical" 1960 model is a more current guide of aluminum use than the 83 pounds we gave earlier using the "average" method of computation.

Our company has already announced that its Dodge Division will bring to the 1961 model market a new compact car. This model will be in addition to the other new small cars that we understand our competitors plan to introduce this fall.

In this rapidly changing automotive market, it is extremely difficult to speculate, except in a general way, what the future uses of aluminum by our company will be. The best we can do at the present time is to say at the introduction time of our 1961 models we will probably use about 71 pounds of aluminum on the estimated "typical" or "composite" 1961 Chrysler Corp. car.

Beyond the introduction period, increases in aluminmu consumption are dependent upon the extent that engineering, manufacturing, and metallurgical and other problems can be surmounted in order to extend aluminum applications to such major automotive components as engines, radiators, and bumpers. For the past several years we have done much development work in these areas and we certainly expect some of this work to be incorporated into actual production.

When such developments and others under consideration are adopted for production, we can reasonably expect to see as great a rise in future aluminum consumption in our cars as occurred between 1950 and 1957. For example, an aluminum engine could add approximately 75 to 100 pounds of aluminum to a car.

Traditionally, Chrysler Corp. has purchased a greater percentage of its vehicle production requirements from outside suppliers than has either of its major competitors in the industry. To improve our competitive position, we continually make cost studies to determine whether parts can be made more economically and better within our corporation or outside. As a result of one such study, we established a casting operation at our Kokomo, Ind., plant in 1957. This plant began pilot work on a small number of aluminum die castings. The cost, quality, and performance of the parts produced at Kokomo have been so satisfactory that this facility gradually absorbed more of the aluminum die casting requirements of our company. We already had an aluminum permanent mold foundry and casting plant prior to 1957 in Highland Park, Mich., that produces engine pistons for the company. We also have a foundry in Indianapolis producing one aluminum part.

As a result, we now produce for our 1960 models a large share of our total aluminum parts requirements. The remainder of our aluminum parts requirements comes from 84 suppliers. The suppliers are categorized as follows:

Employing less than 100 persons	21
Employing between 100 and 250	14
Employing between 250 and 500	16
Employing over 500	33
Total	84

As the success of our aluminum die casting operation in our Kokomo, Ind., plant became apparent, and because of our anticipated increase in the use of aluminum, we realized we would be requiring substantial quantities of aluminum casting ingot. In view of the relatively greater fluctuations that take place in both the availability and price of secondary aluminum as compared to primary aluminum, we decided it would be advantageous to develop a source of supply that would make available to us, within limits, a guaranteed supply of aluminum ingot at a price that did not fluctuate as widely as does the price of secondary aluminum, which we had theretofore been using almost 100 percent. As most members of this committee will recall, Chrysler Corp. suffered very severely in 1959 because of suppliers' inability to maintain deliveries of glass and steel at critical periods in our production schedule. We have made arrangements to fabricate about 50 percent of our glass requirements to work ourselves out of that problem, and have taken steps to avoid a possible problem with respect to aluminum.

After looking at proposals submitted by several aluminum producers, we were receptive to a proposal submitted by Aluminium Co. of Canada, Ltd., to Chrysler Corp. of Canada, Ltd., under which those two companies would enter into a joint venture.

Their proposal was accepted and Chryslum, Ltd. (Chryslum), was formed as a Canadian company jointly owned by the Aluminium Co. of Canada, Ltd., and Chrysler Corp. of Canada, Ltd. The success of this venture depends to a large extent upon Chrysler Corp. committing to purchase certain amounts of its aluminum ingot requirements from Chryslum. At the time, Chrysler Corp. of Canada, Ltd., had plans to build its own diecasting plant in Windsor, Ontario, where its general offices are located. To date, however, these plans have not been carried out.

Chryslum was organized in July 1959, with a paid-in capital of $1,200,000, divided into 200,000 voting shares, of which 51 percent are held by Chrysler Corp. of Canada, Ltd., and 49 percent held by Aluminium Co. of Canada, Ltd.

Chryslum operates a smelter in Beauharnois, Quebec, which it rents from Aluminium Co. of Canada, Ltd.

Chryslum sells to Chrysler Corp. of Canada, Ltd., and Chrysler Corp. a minimum of 51 percent of their respective requirements of aluminum and aluminum alloys for their own manufacturing processes in the production of parts for current vehicles, to the extent that such requirements do not exceed 36,000 tons in any year. (The 51 percent does not include aluminum purchased by Chrysler Corp. or Chrysler Corp of Canada, Ltd., in finished parts.)

For 99.50 percent minimum purity aluminum, Chrysler Corp. pays Chryslum the current U.S. domestic price as quoted in the American Metal Market and in effect at date of shipment from the smelter. At the time the contract was signed, the current U.S. price for this material was 24.7 cents per pound. To the extent that Chrysler Corp. requires various alloys, the price is adjusted to reflect additional charges as negotiated by the parties, and is subject to escalation up or down as the U.S. market price for the alloy ingredients fluctuates up or down. Prices for the two principal alloys used by Chrysler Corp. (for die casting and permanent mold pistons) have been established and Chrysler Corp. pays an additional 1.3 cents per pound for the

diecasting alloy and an additional 4.1 cents per pound for the permanent mold piston alloy.

This statement has covered the past, present, and possible future uses of aluminum in our corporation cars, and also outlined one method of obtaining our requirements of aluminum.

In summary, the greatest growth in the application of aluminum to automotive parts occurred in the postwar period, particularly between 1950 and 1957, and to date reached its peak use in our 1957 models.

During the past 3 years aluminum has been under heavy competitive pressure from other materials and its consumption by Chrysler Corp. declined modestly. This decline took place even though we adopted an additional number of aluminum parts.

It appears to us now that any significant increase in aluminum use in our future models must await adaptation of this lightweight metal to such major automotive components as engines, bumpers, and radiators.

Any aluminum requirement forecast may be drastically altered by a number of factors, yet unforeseen. These factors include technological advances in metallic and nonmetallic materials, new styles, new designs or new motive power concepts adopted for automotive production. New developments in manufacturing processes or innovations in automotive convenience and safety features used as standard or optional equipment must also be considered. Any and all of these factors would influence the use of aluminum in the automotive industry.

Thank you.

Mr. YATES. Thank you very much, Mr. Garwood, for your fine statement.

I note your new arrangement with Aluminium Co. of Canada. Is that a subsidiary of Alcan, Allied Aluminium?

Mr. GARWOOD. That is the largest subsidiary of Aluminium, Ltd.

Mr. YATES. I note in your statement that you are committed to purchase certain amounts of aluminum ingot from Chryslum. Is there a price at which those ingots are to be purchased?

Mr. GARWOOD. We purchase the ingots at the same price as we can buy them here in the U.S. market.

Mr. YATES. What do you pay for them in the U.S. market?

Mr. GARWOOD. Well, the price that is published in American Metals Market.

Mr. YATES. Then you still have a competitive disadvantage over the other companies who enjoy hot, excuse me, molten-metal contracts?

Mr. GARWOOD. Well, we don't feel——

Mr. YATES. If that is your price.

Mr. GARWOOD. We don't feel that is a disadvantage necessarily.

Mr. YATES. I was under the impression if something cost more, and you had to use it, it operated at a competitive disadvantage in terms of your total pricing structure. Why do you feel that this is not a competitive disadvantage if you have to pay more than they do for a material that is coming into greater and greater use?

Mr. GARWOOD. Well, in the first place, of course, we only make our castings and we don't make any of the wrought aluminum parts that Chrysler Corp. uses, that is, the finished aluminum parts. We have this one foundry, as I mentioned, in Kokomo, and we make only pistons

in our Highland Park plant, and third, in Indianapolis, we make a part which is an intake manifold on a six-cylinder car.

Of course, if we had such an arrangement with these companies to buy molten aluminum, we would have a considerable investment to make, as I mentioned before in 1957, and in addition to that we would have to establish those plants in somewhat close proximity to the reduction cells, and rather than doing that, we felt it was better for us to continue in the way that we had.

Mr. YATES. I note in your statement on page 7 that, as a result of suppliers' inability to maintain deliveries of glass and steel at critical periods of production schedule, you had made arrangements to fabricate about 50 percent of your glass requirements yourself.

Mr. GARWOOD. That is correct.

Mr. YATES. Are you also buying the steel or making arrangements for getting steel——

Mr. GARWOOD. No; we have no plans for buying steel capacity.

Mr. YATES. I have one last question myself and that is to you as a technical man. You are the chief engineer of materials; as an automobile consumer, may I ask you a question. We have heard a lot about Mercedes and the fine quality of its parts. Presumably this is a great selling car to the American consumer. Are not the parts that go into your Chrysler products or other American cars as good as those of Mercedes?

Mr. GARWOOD. We certainly feel that they are.

Mr. YATES. How did this—is this more propaganda on the part of the Mercedes Corp. to its customers?

Mr. GARWOOD. I am not familiar with all of Mercedes advertising, but I feel confident——

Mr. YATES. Had you heard the same thing, that Mercedes is supposed to be as finely manufactured and with as good parts as a fine watch?

Mr. GARWOOD. Well, there are a lot of claims made in advertising, and I can't substantiate the claims that they have made nor can I deny them, for that matter, from my personal experience. But I feel that the cars that are made in this country are just as good in every respect as the cars that come from abroad.

Mr. YATES. I want to feel that, too, and I believe they are as good as those made abroad, but I must say that friends of mine who own a Mercedes are enamored of it, and they say they find that it operates much more smoothly, the parts are much better machined, and the alloys are much stronger than they find in the American cars, and that is why I thought that perhaps while I had the benefit of an expert on the stand I might want to ask him that question.

Mr. GARWOOD. Well, I feel this way about it: As far as I am concerned, for the same price we build a better automobile.

Mr. YATES. OK. Mr. Garwood, I gave you your chance; I wanted to let you talk and show any advantages that Chrysler and the American car has over the foreign car. Now I turn the questioning over to Mr. Multer.

Mr. MULTER. In making your arrangements for your glass requirements, or 50 percent of your glass requirements, did Chrysler acquire any other glass plants?

Mr. GARWOOD. No, sir; we built our own glass plant and established our own facility in Detroit.

Mr. MULTER. No 51–49 percent arrangement in glass?

Mr. GARWOOD. No; none whatsoever.

Mr. MULTER. Who else submitted any proposals to you with reference to aluminum?

Mr. GARWOOD. Well, there were all the four major producers of aluminum; there was Alcoa, Reynolds, Kaiser, and Olin Mathieson.

Mr. MULTER. What are the total requirements in 1959 of Chrysler for aluminum and aluminum alloys?

Mr. GARWOOD. I think maybe I have that figure here. I have the figure for pig and, of course, all the rest of it actually we buy as parts, so I do not have that, Representative Multer, but for pig in 1957 we purchased 18,932,000 pounds, and in 1958, 11,732,000 pounds, and in 1959, 37,006,000 pounds, and in 1960 in the first 3 months we have purchased 7,454,000 pounds.

Now, those figures will vary because of inventories that we have carried and they are not necessarily representative of our production.

Mr. MULTER. Those figures don't help me very much. I have in mind the statement you made at the bottom of page 8, the last paragraph where you say that your contract with Chryslum requires them to supply you with a minimum of 51 percent and I imagine it requires you to take a minimum of 51 percent of your respective requirements of aluminum and aluminum alloys for all manufacturing processes and then you say to the extent that such requirements do not exceed 36,000 tons in any year?

Mr. GARWOOD. Yes.

Mr. MULTER. I would like to know what part of your total requirement that 36,000 tons is?

Mr. GARWOOD. Well, that would be directly comparative with the figures I gave you because everything else that we purchase that is not included in those figures I gave you are as finished aluminum parts such as trim, and so on.

Mr. MULTER. Chryslum apparently will be able to sell its product to your competitors.

Mr. GARWOOD. No——

Mr. MULTER. Do you have a restriction against its selling to your competitors?

Mr. GARWOOD. No, we are not going to sell that. If you are talking about the aluminum ingot we are buying we have no intention of selling that product.

Mr. MULTER. Will Chryslum sell any of its products to any of Chrysler's competitors?

Mr. GARWOOD. No, sir; they will not.

Mr. MULTER. So that in effect the Chrysler Corp. contract with Chryslum is to take Chryslum's entire output.

Mr. GARWOOD. I think 51 percent.

Mr. MULTER. Fifty-one percent of your requirements.

Mr. GARWOOD. Yes.

Mr. MULTER. What do they do with the difference, if you don't use up their entire output, what do they do with it?

Mr. GARWOOD. Well, they sell that in any market that they see fit and I suppose most of it in Canada.

Mr. MULTER. Can they sell it to your competitors, can they sell it to General Motors, can they sell it to Ford?

Mr. GARWOOD. I think that is right, if it is their material.

Mr. MULTER. There is no restriction on it.

Mr. GARWOOD. No.

Mr. MULTER. Thank you, Mr. Chairman.

Mr. YATES. Mr. Derwinski.

Mr. DERWINSKI. No questions.

Mr. YATES. Thank you very much, Mr. Garwood. We had hoped to hear from Mr. Skinner of General Motors before lunch, but we have a quorum call that we must respond to. May I suggest that we come back at 1:30 and we will try to hear the remainder of the witnesses this afternoon?

(Whereupon, at 12:05 p.m. the hearing was recessed, to reconvene at 1:30 p.m. of the same day.)

AFTERNOON SESSION

Mr. YATES. The committee will come to order.

Gentlemen, I must apologize for what promises to be a number of interruptions in the proceedings this afternoon. We have the area redevelopment bill on the floor of the House and it is the subject of some controversy, and as a result we may be called to the floor from time to time with quorum calls and rollcalls. We will do our best to listen to the witnesses and to permit them to be on their way sometime today.

The committee would like to hear now from Mr. Skinner, if he is in the room.

Mr. Skinner, the committee is grateful to you for coming down here and we would welcome the statement you want to make on behalf of General Motors. Won't you be seated?

Mr. SKINNER. Thank you, Mr. Chairman.

Mr. YATES. Gentlemen, this committee does not swear in its witnesses.

TESTIMONY OF SHERROD E. SKINNER, EXECUTIVE VICE PRESIDENT, GENERAL MOTORS CORP.; ACCOMPANIED BY DANIEL BOONE

Mr. SKINNER. I have with me Mr. Boone of the staff of the general counsel of General Motors Corp.

Mr. YATES. We are glad to have Mr. Boone. I remember you were with us before.

Mr. BOONE. That is correct.

Mr. YATES. I remember thinking of Daniel Boone.

Mr. SKINNER. My name is Sherrod E. Skinner. I am executive vice president of General Motors Corp., in charge of the automotive and parts divisions.

Mr. John F. Gordon, president of General Motors, has requested me to appear before your committee in response to the letter sent to him by Chairman Yates. Although the chairman's letter specifically refers only to expected future uses of aluminum, it is our understanding, based on conversations between counsel for the committee and counsel for General Motors, that the committee also wishes us

to discuss generally our molten metal contracts and certain related matters.

The committee will recall that in November 1957, Mr. John J. Cronin, then vice president of General Motors in charge of the manufacturing staff and now retired, testified in respect of the contracts with Reynolds Metals Co. and submitted certain data to the committee in respect of the historical usage of aluminum in the manufacture of automobiles.

We submitted at that time an estimate as to expected future usage of aluminum. It is my purpose in this statement to supplement the statistics presented at the last hearing and to submit data in respect of certain other subjects which have been suggested by counsel to the committee.

REVIEW OF ALUMINUM USAGE IN GENERAL MOTORS CORP.

Although General Motors is a large purchaser of aluminum, our total purchases represent a small percentage of the total market.

The primary producers of aluminum in the United States and Canada produced a total of 2,553,000 net tons of metal in the year 1959. The secondary production in the United States amounted to approximately 390,000 net tons.

The total purchases of General Motors of pig, slab, and molten metal of both types amounted to 34,285 net tons or 1.16 percent of the total. Stated as a percentage of the total primary metal produced, our purchases amounted to 1.34 percent of the total United States and Canadian production.

At the November 1957 hearings of this committee, we submitted a schedule—transcript page 231—setting forth the estimated average number of pounds of aluminum used in a composite four-door General Motors passenger car in each of the model years 1951 through 1958. This schedule also showed the number of pounds of aluminum fabricated inside the corporation and the number of pounds purchased from outside suppliers in each year.

Since the date that we submitted that schedule, the use of more refined statistical procedures has enabled us to make certain corrections in the figures. Similar data for the years 1959 and 1960 have also been computed. We ask leave to submit the following revised schedule:

You probably will note, the committee will note there is a change in the trend on the number of pounds fabricated outside the corporation, and I want to speak to that point.

[In pounds]

Year	Fabricated outside the corporation	Fabricated inside the corporation	Total	Year	Fabricated outside the corporation	Fabricated inside the corporation	Total
1951	7.37	4.51	11.88	1956	14.57	13.42	27.99
1952	7.10	4.32	11.42	1957	18.25	14.26	32.51
1953	7.50	7.74	15.24	1958	19.06	26.12	45.18
1954	13.17	7.35	20.52	1959	21.58	26.13	43.71
1955	15.44	7.35	22.79	1960	18.55	33.62	52.17

The increased ratio of pounds per car fabricated inside the corporation starting with the year 1958 was due entirely to substituting aluminum for gray iron castings which had previously been made by divisions of General Motors.

Examples of this are the substitution of aluminum for gray iron in the manufacture of transmission cases on most of our cars. The development of the aluminum engine program for the Corvair automobile has also importantly contributed to our increased average usage.

As the chart also indicates, General Motors consistently increased its purchases in pounds of castings from sources outside the corporation in each year through 1959. In 1960 there was a decrease of 3 pounds per vehicle as a result of discontinuance of the Buick flight pitch transmission which was an option on 1958 and 1959 models and was produced by outside sources. This discontinuance came about as a result of improvements in the standard Buick transmission.

POSSIBLE FUTURE USAGES OF ALUMINUM

As was stated at the earlier hearings, any forecast as to the future use of aluminum in automotive manufacture must, of necessity, be something of a guess. The light metals industry has made great progress in the past two decades and we think it reasonable to assume that progress will continue to be made in the future in the development of not only aluminum but other light metals as well.

There is, of course, no way of forecasting whether aluminum which has been substituted for heavier metal applications will itself in turn be subject to replacement by new light metal developments.

In 1958 we stated to the committee that we thought that it was entirely possible that the average use of aluminum could increase to 75 pounds per automobile by 1965. It now appears that the trend is developing more rapidly than we anticipated toward aluminum utilization and that our earlier projection was conservative.

The 1960 Corvair, for example, which was introduced by Chevrolet in the autumn of 1959, is powered by an aluminum engine which requires a total of 124.31 pounds of aluminum. Increases of this magnitude have, of course, affected our composite estimates.

The extent to which aluminum will be substituted for iron in future engine design of Chevrolet and other General Motors cars cannot, at this stage, be predicted with any degree of certainty. Design, cost, and styling problems must be analyzed and appraised before any accurate prediction can be made.

If the trend of the past few years is any indication, it is conceivable that the average use of aluminum could possibly double by 1965.

In addition to possible future engine design developments there are a number of promising areas for future exploration of aluminum application to the manufacture of axles, transmissions, brakedrums, radiators, grills, hardware, and decorative trim. Research and experimentation in these fields is continuing.

PURCHASES OF ALUMINUM FROM FABRICATORS

General Motors is currently purchasing fabricated aluminum from 390 suppliers. The following chart shows the total number of suppliers used in producing the 1959 and 1960 models classified as to size by number of employees:

Suppliers by number of employees	1959 model		1960 model	
	Number	Percent	Number	Percent
1 to 100	167	47.2	156	45.6
101 to 250	77	21.8	74	21.7
251 to 500	47	13.3	49	14.3
501 and above	63	17.7	63	18.4
Total	354	100.0	342	100.0

NOTE.—An additional 43 suppliers in the 1959 model column and an additional 48 suppliers in the 1960 column have not been included in the above figure because employment statistics are not presently available. We have reason to believe, however, that all fall within the 1 to 100 group.

The classification of suppliers by number of employees is based on our supplier survey for the year 1958, which is the latest information available.

OPERATION OF MOLTEN ALUMINUM FOUNDRIES

We are currently operating two aluminum foundries at which we fabricate castings from molten aluminum. One of these plants is located at Massena, N.Y., and is operated by the Chevrolet Motor Division. The other is located at Jones Mills, Ark., and is operated by the Central Foundry Division.

A third molten aluminum operation will begin on July 5, 1960, at the Bedford, Ind., foundry of the Central Foundry Division.

The Jones Mills and Bedford foundries which, at the time of the 1957 hearings, were operated by the Fabricast Division of General Motors, were transferred to Central Foundry Division, effective May 1, 1959.

It has been suggested that additional information regarding our experience in the operation of these foundries would be of assistance to the committee.

At the 1957 hearings we placed before you much of the background which led to the Jones Mills and Massena contracts.

I propose to discuss the current status of the contracts and indicate briefly our experience under them.

I also propose to discuss our new contract with Aluminum Co. of America for the delivery of molten metal at the Warrick Works in Warrick County, Ind., for use at our Bedford foundry.

Attached to this statement is a statistical summary of the operation of our three aluminum foundries, and I refer to this statement to call particular attention to the growth in each instance, but even more particularly to the outside sales or the lack of outside sales in the different locations.

At Jones Mills, there was in the 4 years 1953 through 1956 a sizable percentage, tonnage and percentage, of outside sales, and this was all of a special defense item that was sold to Chrysler Corp.

Before that and since that time there have been no outside sales from Jones Mills.

At Massena there is none, there has been none, and there is none currently.

At Bedford there is a history thereof, from the beginning, of some variation, but all very much on the low side percentagewise, being less than 1 percent except in 1 year, which means that——

Mr. YATES. Will you excuse me while I answer the rollcall and I will be right back?

Mr. GARWOOD. Yes, sir.

(A short recess was taken.)

Mr. YATES. You may resume.

Mr. SKINNER. Mr. Chairman, I would like to complete the analysis of this statment as to the operations in the three foundries in a summary stating that at Jones Mills and Massena there is no outside sales and at Bedford it has varied from a tenth of 1 percent up slightly and is now running at a tenth of 1 percent.

THE JONES MILLS OPERATION

We first initiated discussions with Reynolds Metals in respect of a molten metal contract, in the late forties. We recognized, as did Reynolds, that the relatively high cost of aluminum, when compared to the cost of iron, was a factor limiting the use of aluminum in automotive manufacture.

The parties also recognized that the direct sale of molten metal would enable both seller and buyer to eliminate the expensive and time-consuming operations of pouring, cooling, handling, transporting, rehandling, and remelting the metal back to the original molten state. Prior to our Jones Mills operation, no one had attempted to transport molten metal from a reduction facility to a foundry and there was considerable skepticism as to whether it was feasible.

The first contract was entered into on February 7, 1950, and was on a purely experimental basis. Since it was felt at that time that close proximity to the reduction mill was absolutely essential to the success of the operation, we established a pilot line operation about one-fourth mile from the Reynolds plant at Jones Mills, Ark., and conducted extensive tests of the process to determine its practicability. These tests proved successful and we entered into a production contract on July 23, 1952, covering the purchase and sale of molten metal for a 5-year period from January 1, 1954, and thereafter, cancelable by either party upon 1 year's notice.

General Motors constructed a production foundry near the Reynolds plant of sufficient capacity to handle the output of one potline, or approximately 40 million pounds a year.

The following schedule shows the details of our operations under the contract:

Year	Total pounds of castings shipped	Total pounds of castings shipped outside GM (included in total)	Percent of outside sales to total shipments	Employment
1950	500,000		0	68
1951	1,431,385		0	130
1952	1,635,695		0	170
1953	2,596,334	658,121	25.3	232
1954	3,811,573	617,696	16.2	281
1955	10,833,953	388,885	3.7	370
1956	18,218,966	137,803	0.8	281
1957	16,905,950		0	255
1958	12,479,616		0	170
1959	15,275,872		0	216

We have made no outside sales of castings produced at this plant since 1956. Sales prior to 1957 were, in large part, confined to sales to Chrysler Corp. for use in defense projects. Orders for these castings have been canceled as Chrysler's defense commitments have been adjusted.

Despite the fact that the Jones Mills operation has proved the economic and technical feasibility of casting directly from molten metal, I would not say that the operation has proved, on the whole, as successful as we had hoped it would. This is due, in the main, to the fact that the plant is rather far removed from the manufacturing facilities which use the castings, and this has resulted in abnormal transportation costs.

On June 22, 1959, pursuant to the terms of the contract, we served notice on Reynolds that we desired to terminate the agreement effective June 30, 1960. This does not mean that we have any present plan to discontinue the Jones Mills operation, but merely that we desire to be relieved of the minimum "take" requirements of the contract for the time being. Our plans in respect of the plant are not yet finalized and we will, for the present, continue to operate.

MASSENA OPERATION

Our contract with Reynolds Metals Co. for delivery of molten metal at the Massena, N.Y., reduction mill of Reynolds Metals Co. was entered into on February 13, 1957.

Under the contract, General Motors is obligated to purchase molten metal in quantities sufficient to manufacture 50 percent of the aluminum transmission parts requirements and 25 percent of the aluminum piston requirements of the Chevrolet Division, subject to a maximum demand of 75 million pounds a year. The contract will run until May 31, 1964, subject to renewal at our option for an additional 5 years, and thereafter until terminated by either party on 1 year's notice.

The aluminum foundry which Chevrolet has constructed at Massena is currently committed to the production of aluminum castings for the new Corvair line, particularly engine blocks and heads. These are very complicated castings not heretofore produced by any aluminum foundry in the United States.

As a matter of information and interest, I have brought with me samples of the rough castings fabricated for the Corvair engine at Massena.

I think anyone who is particularly interested, any members of the committee or of the industry, who are particularly interested in the details of some of these castings, I would be glad to talk about them at your convenience. This is merely to show they are somewhat out of the ordinary in the way of a casting.

The casting process in use at Massena has not been used heretofore in the casting of aluminum in this country. It is known as a low-pressure permanent mold process and was originally developed in England for the purpose of casting aluminum beer barrels. We purchased license rights and the necessary machinery from Karl Schmidt of Neckarsulm, Germany, a licensee of Alumasc, Ltd. of Northamptonshire, England.

The process differs radically from the standard method of permanent mold casting.

In the standard method, the mold is poured and gravity-fed and requires gates, risers, and sprues. The average yield is about 60 percent.

In the low-pressure method, the metal is forced into the mold from the bottom by air pressure. The average yield is about 98 percent, as a result of the elimination of risers.

We have here a photograph of one of these machines in the event that any member of the committee would like to examine it more closely.

Some of the advantages of the low-pressure molding technique which influenced our decision to adopt this process for complicated parts include:

1. High density structure: Parts so cast are of high density and virtually free from porosity and shrinkage.
2. High yield: Large gates and risers are avoided with savings on cost of removal and subsequent remelting of excess material.
3. High productivity: Automatic fill and hydraulically actuated molds permit the more effective utilization of manpower.
4. Low equipment cost: Initial costs are lower than die casting and comparable to permanent molding equipment.
5. Clean castings: The sealed furnace and underpouring of metal results in castings that are relatively void of oxides.

The extent to which this process will be used in other foundries of General Motors will, of course, depend on experience factors which cannot be fully evaluated until we have had additional and broader experience.

We have brought here an exhibit at the rear of the room, which if anyone is interested, any member of the committee is interested in more details of this unique development, we would be glad to go over it in detail.

It shows the powerplant of the Corvair and the location of it, in particular, of the aluminum castings involved in building the powerplant.

Mr. YATES. It is a very interesting exhibit. I was looking at it yesterday.

Mr. SKINNER. So the extent to which this will be used is also dependent upon our success with this very unusual and enthusiastic entry into the automotive field.

In 1959, the Massena foundry produced a total of 13,521,000 pounds of castings, all of which were shipped to the Chevrolet Division. Currently the facility employs approximately 950 persons.

Approximately 72 percent of the tonnage currently fabricated at Massena represents engine blocks and heads for the Corvair of the type which I have shown you.

BEDFORD OPERATION

General Motors has owned and operated this foundry since August 1946. It has been used almost exclusively as a source of castings for the automobile divisions.

On November 30, 1959, we entered into a contract with Aluminum Co. of America under which deliveries of molten metal are expected to begin on July 5, 1960. The agreement is for a term ending June 30, 1962, and thereafter, until terminated by either party on 6 months' notice.

Under the contract the Central Foundry Division of General Motors Corp. is obligated to purchase in molten form from the Warrick Works of Alcoa 50 percent of the aluminum and aluminum alloy requirements of the Bedford plant of Central Foundry Division, subject to a limitation of 6 million pounds a month.

Delivery is to be taken at the Warrick Works by independent contract carriers, in covered flasks and trucked to the Bedford plant, a distance of approximately 115 miles.

Experience gained under the Jones Mills and Massena contracts has shown that it is technically feasible to transport molten metal for greater distances than was originally thought, and that it is not necessary to establish the foundry facility in close proximity to the reduction mill.

Here I would like to introduce and make available photographs of the transportation equipment, but particularly the ladles that are used for transporting the molten metal from the reduction mill to the foundry.

Mr. YATES. I would like to see it.

Mr. SKINNER. I think there has been some confusion, certainly on the part of many people as to the means for getting from place to place, with all this molten metal, which, incidentally is hot.

Mr. YATES. I know it.

How far can you transport molten metal. You can do it 115 miles. How far could you do it if you had to?

Mr. SKINNER. We don't know that. I think a short time ago, a year ago, we might have said we could not do it 115 miles, but we have tried it and one of those photographs shows the ladle that we

are using in the experiments for that longer journey. We tried it and found that it is feasible.

Mr. YATES. Do you have a photograph with you?

Mr. SKINNER. Yes; we will have to get them. They have been mislaid. Well, we will get them and turn them over to you.

Mr. YATES. All right.

Haven't you made tests to see how far you can actually transport it.

Mr. SKINNER. I beg your pardon; I didn't get that.

Mr. YATES. Have you not made tests to see how far you can actually transport molten metal?

Mr. SKINNER. We have not gone beyond this.

Mr. YATES. Beyond 115 miles?

Mr. SKINNER. No; not beyond this because there have not been any occasions to.

Mr. YATES. Do you know whether the companies themselves, the producers themselves have?

Mr. SKINNER. I do not know, sir. This apparent success of this experiment would, I think, encourage further tests to see how far you might go.

Mr. DALMAS. Mr. Chairman, would Mr. Skinner describe the operation. Do you put a separate flask on a carrier and then unload it at the other end or exactly how is it done?

Mr. SKINNER. These photographs, to save a lot of time on that, show the truck with the ladle on the truck, and the ladle being emptied into the holding furnace.

Mr. YATES. Would you excuse me while I go back to answer that rollcall?

Mr. SKINNER. Yes.

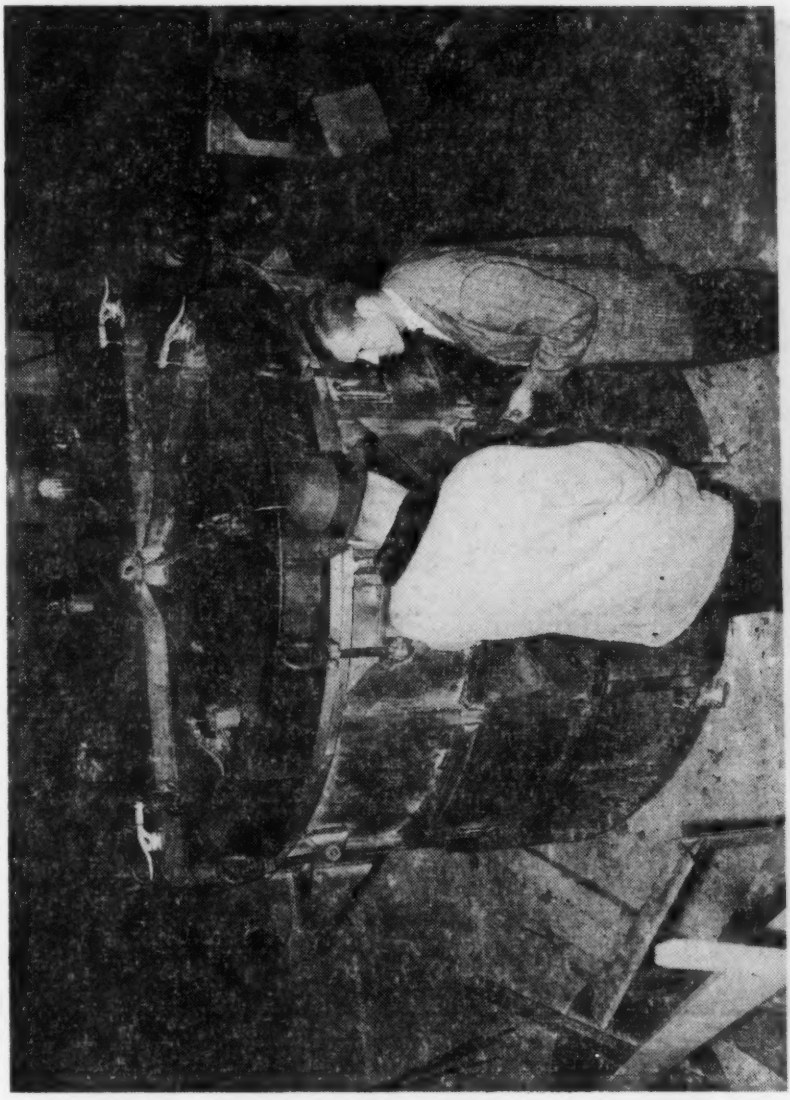
(Short recess.)

Mr. YATES. Again I apologize, Mr. Skinner. Will you proceed, please?

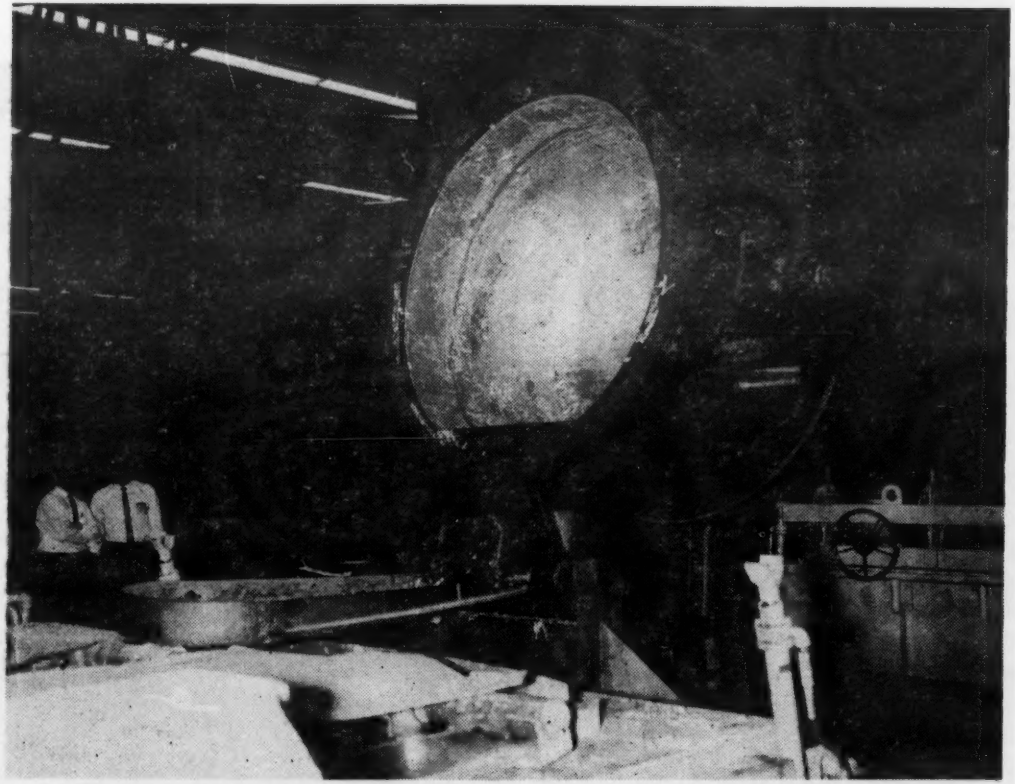
Mr. SKINNER. Thank you.

First of all on the photographs that we finally submitted, if the committee desires to have those, we will identify them and leave them with you.

(The photographs referred to follow:)



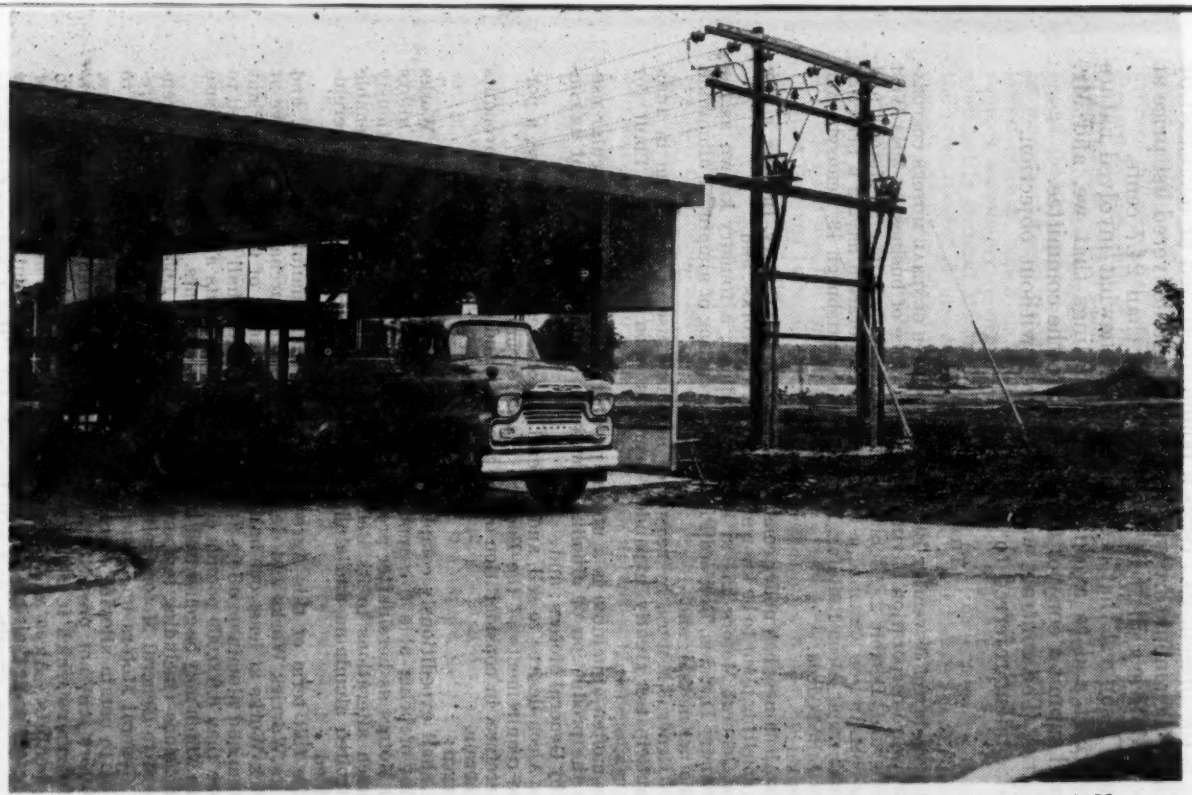
Aluminum transport ladle.



An aluminum transport ladle nearly emptied at a holding furnace in the Chevrolet Aluminum Foundry

The transport ladle is nearly empty and no appreciable trace of dross or cryolite can be observed in the refractory lined interior. The baffle above the pouring dip is a safety feature to prevent splash of hot metal.

observed in the refractory lined interior. The baffle above the pouring dip is a safety feature to prevent splash of hot metal.



First load of hot metal from Reynolds Reduction Plant reaches Chevrolet Aluminum Foundry at Massena

The hot metal transport truck operated by Chevrolet is shown as it weighs in one of the first ladles of molten aluminum from Reynolds. In normal operation, two 9,000-pound ladles of metal securely positioned on the truck are transported at a temperature of about 1,650° F.

The Alcoa contract provides that the price of the molten metal shall be the average delivered list price of 99.5 percent aluminum pig quoted in the American Metal Market during the preceding calendar month; less 3.325 cents a pound when such average delivered list price is the present 24.7 cents a pound, increased or decreased by one-tenth of the amount by which such average delivered list price at the time of delivery shall be greater or less than 24.7 cents.

And here I suggest that because of the somewhat involved nature of the contract and to avoid misunderstandings that we, and Mr. Boone, will submit a copy of the contract to the committee.

Mr. YATES. The contract will be received without objection.

(The document referred to follows:)

THIS AGREEMENT

made this 30th day of November 1959, by and between GENERAL MOTORS CORPORATION, a Delaware corporation having a principal place of business at 3044 West Grand Boulevard, Detroit 2, Michigan, hereinafter called General Motors, and ALUMINUM COMPANY OF AMERICA, a Pennsylvania corporation having a principal place of business at Alcoa Building, Mellon Square, Pittsburgh 19, Pennsylvania, hereinafter called Alcoa,

WITNESSETH:

Whereas Alcoa now has under construction in Warrick County, Indiana, a new aluminum smelting plant to be known as the Warrick Works; and

Whereas General Motors has in Bedford, Indiana, a foundry known as the Central Foundry Division, Bedford Plant, for the casting of aluminum, aluminum alloys, and other metals; and

Whereas General Motors, by reason of increased use of aluminum in automobiles, anticipates greatly expanded demands upon its Bedford Plant for aluminum castings; and

Whereas molten aluminum is a unique product of special and particular usefulness in the production of aluminum products at the Bedford Plant as contemplated by General Motors; and

Whereas Alcoa desires to sell, and General Motors desires to purchase, a portion of the requirements of the Bedford Plant for molten aluminum;

Now, therefore, in consideration of the premises and of the mutual covenants contained herein,

IT IS AGREED:

1. Alcoa shall expeditiously complete the construction of its Warrick Works to the point of being able to supply molten aluminum and aluminum alloys to General Motors as hereinafter provided. General Motors shall expeditiously complete such alterations to its Bedford Plant as may be required to enable it to use molten aluminum and aluminum alloys supplied by Alcoa as hereinafter provided.

2. For the full term of this Agreement, Alcoa shall manufacture, sell, and deliver at its Warrick Works and General Motors shall purchase and receive at said Warrick Works at least one-half of the requirements of the Bedford Plant for aluminum and aluminum alloys; provided that Alcoa shall not be required to deliver more than 6,000,000 pounds a month. Requirements are net after reuse of any scrap which may be generated in General Motors plants.

3. Specifications (including temperatures not exceeding 1,650 degrees Fahrenheit delivered to General Motors receptacles) shall be as from time to time prescribed by General Motors upon such notice as may be reasonably required to enable Alcoa to obtain alloying elements and introduce them into its pot lines. General Motors will not prescribe an alloy which it is impracticable to produce nor tolerances which it is impracticable to meet in Alcoa's pot lines with Alcoa's best efforts. Alcoa will furnish an adequate analysis of each ladle of aluminum before or at the time it arrives at the Bedford Plant. No scum, heavy oxide, or excessive cryolite slag will be included. Metal not conforming to specifications will be returned (in molten form insofar as practicable) to Alcoa

who shall reimburse General Motors for all costs involved) and treated as not having been delivered.

4. The price for each delivery of molten metal hereunder shall be computed according to the following formula: the aluminum content (computed by subtracting the weight of specified alloying elements from total weight) at: the average delivered list price of 99.5 percent aluminum pig quoted in American Metal Market during the preceding calendar month; less 3.325 cents a pound when such average delivered list price is the present 24.7 cents a pound, increased or decreased by one-tenth of the amount by which such average delivered list price at the time of delivery shall be greater or less than 24.7 cents; and alloying elements at Alcoa's average costs at its Warrick Works during the preceding month, except that if Alcoa shall establish a special source of supply for any element, by manufacturing it itself or otherwise, Alcoa's cost shall be deemed to be the lowest price at which such element is available in comparable quantities from sources seasonably reported by General Motors to Alcoa; provided that Alcoa shall notify General Motors before paying a price for any element in excess of the price thereof as quoted in the American Metal Market, and the cost of any element shall not exceed the cost thereof from any available source seasonably reported by General Motors to Alcoa.

5. Alcoa shall invoice for molten metal delivered hereunder no less than one nor more than five times a calendar month, with one invoice covering all deliveries through the end of the month (hereby defined to include to 8 a.m. of the next day) and not theretofore invoiced. General Motors shall pay all agreed invoices received between the first and fifteenth days of any month on or before the twenty-fifth of such month, and received between the sixteenth and last days on or before the tenth of the following month.

6. No later than the eighth day of each month General Motors shall furnish Alcoa with a schedule of molten metal requirements by days for the next two calendar months, of which the schedule for the first month shall be firm and that for the second month estimated. Such schedules will provide for as near as may be uniform daily quantities excluding Saturdays, Sundays, and holidays. Alcoa will deliver according to such schedules in receptacles of at least four thousand pounds capacity, of which General Motors shall furnish an adequate supply. Title and risk shall pass to General Motors upon delivery of the filled receptacles to General Motors trucks at the Warrick Works. General Motors shall move the receptacles from the Warrick Works, for which purpose Alcoa shall provide any ramps, loading spaces, roadways, and similar facilities on its property reasonably required to facilitate such removal. General Motors shall indemnify Alcoa against any claim for damage to property or injury to person, including death, arising out of the transportation of the molten metal from the Warrick Works to the Bedford Plant or other destination.

7. This Agreement shall be and remain in full force from the date hereof until June 30, 1962, and thereafter until terminated by either party upon six months' written notice. Deliveries of molten metal hereunder shall commence July 5, 1960, unless the parties shall agree to an earlier date.

8. Alcoa warrants that the material which it will supply hereunder, and its processing, sale, and use will not infringe any United States or foreign patent, and agrees to defend, protect, and save harmless General Motors, its successors, assigns, customers, and users of its products against all suits at law or in equity, and from all damages, claims, and demands for actual or alleged infringement of any patent by reason of Alcoa's processing and sale of such material; provided, however, that if, in Alcoa's opinion, any specification prescribed by General Motors would result in or have the effect of causing Alcoa to infringe any United States or foreign patent, Alcoa may refuse to manufacture to such specification unless General Motors similarly indemnifies Alcoa.

9. If this contract requires the performance of services by employes, agents, or representatives of General Motors upon premises of Alcoa, or by employes, agents, or representatives of Alcoa upon premises of General Motors, General Motors or Alcoa, respectively, shall indemnify and protect the party upon whose premises such services are performed against all liabilities, claims or demands for injury, including death, or damage to any person or property by reason of the presence of any such employe, agent or representative while on the premises of the other party in connection with this contract. The employes, agents, and representatives of either party while on the premises of the other shall comply

with all rules to which the employes, agents, and representatives of the owner of the premises are subject.

10. Neither party shall be liable to the other for failure to comply with any of its obligations hereunder when such failure is attributable to circumstances beyond the control of the party failing to comply, including, without being limited to, failures occasioned by acts of God, strikes, lockouts, differences with workmen, armed interference, civil disturbances, fires, explosions, breakage of or accident to machinery or equipment, failure of usual sources of supply of materials, fuel, power, or transportation or interference by or on the request of any government or agency thereof. In the event that Alcoa shall for any reason be unable to supply molten metal from its Warrick Works, Alcoa undertakes to use its best efforts to provide aluminum and aluminum alloy to the Bedford Plant from any of Alcoa's other plants. Aluminum and aluminum alloy supplied to General Motors pursuant to any governmental allocation order shall not constitute deliveries under this contract. In the event that either party shall suffer an impairment of its capacity to produce or consume, respectively, by reason of any of the foregoing, this contract shall apply to the remainder of production or requirements, as the case may be, in the same proportion that it would apply to full production or requirements in the absence of such interference.

11. Neither party may assign this Agreement without the consent of the other, except pursuant to a merger or other corporate reorganization involving substantially all the assets of the party. Alcoa will not sell, abandon, or cease to operate its Warrick Works without there having been made arrangements satisfactory to General Motors for continuance of a supply of molten metal to its Bedford Plant.

12. If at any time General Motors shall notify Alcoa that any of the aluminum and aluminum alloy to be purchased hereunder will be used by General Motors in the performance of government contracts requiring the inclusion of specified conditions in subcontracts in addition to the conditions included herein, the parties shall negotiate a modification of this Agreement to incorporate herein such additional conditions.

13. All notices hereunder from one party to the other shall be addressed as follows: by Alcoa to General Motors at Central Foundry Division, General Motors Corporation, Bedford, Indiana; and by General Motors to Alcoa at Aluminum Company of America, P.O. Box 10, Newburgh, Indiana, attention Works Manager.

14. Since this contract is wholly to be performed within the State of Indiana, it shall be interpreted, governed and construed according to the laws of that State.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed by their officers thereunto duly authorized and their corporate seals to be affixed as of the day and year first above written.

GENERAL MOTORS CORPORATION,
By JOHN F. GORDON,
President.

Attest:
J. C. DAVIDSON,
Assistant Secretary.

ALUMINUM COMPANY OF AMERICA,
By R. T. HARRIS,
Vice President.

Attest:
ALFRED M. HUNT,
Secretary.

Mr. SKINNER. As shown by the following schedule the Bedford foundry has operated for many years almost exclusively as a supplier of the other divisions of General Motors and has sold very little of its product to others.

Year	Total pounds of castings shipped	Total pounds of castings shipped outside GM (included in total)	Percent of outside sales to total shipments	Employment
1950	17,692,000	22,763	0.1	1,424
1951	19,490,127	74,196	.4	1,816
1952	17,410,995	159,466	.9	2,054
1953	20,204,113	44,340	.2	2,149
1954	16,702,768	9,166	.1	1,815
1955	23,099,114	69,016	.3	1,762
1956	16,302,053	129,662	.8	1,463
1957	15,239,107	197,512	1.3	1,224
1958	11,151,000	76,862	.7	899
1959	13,218,299	35,925	.3	1,115

It is not expected that the purchase of molten aluminum from Alcoa will in any way change the historical distribution pattern of the Bedford plant.

If the over-the-road transportation of molten metal for substantial distances proves economically and technically feasible we believe that there should be a substantial growth in the use of this commodity by other aluminum fabricators and that General Motors will have made a real contribution to the development of the aluminum foundry industry.

ADVERTISING OF CENTRAL FOUNDRY DIVISION

It has been suggested that certain recent advertisements of Central Foundry Division which appeared in January 1960 have caused some concern among small companies engaged in the aluminum fabricating business.

We ask leave to file as part of the record the advertisement in question and samples of previous advertising of the Central Foundry Division which has appeared in trade journals during the period 1958–60.

Mr. YATES. They may be admitted to the files of the committee and the committee will decide later as to whether to admit them in the record because of their bulk.

Mr. SKINNER. Thank you.

It is apparent that the theme of all this advertising is the pioneering of new markets and the development of new applications for the products that the division manufactures.

New markets and new casting applications create new opportunities for growth for every fabricator, large or small.

The extent that the division has sold its various products to customers outside General Motors during the period 1955–59 is shown in the following schedule:

Anaylsis of sales

[Calendar years]

	1955	1956	1957	1958	1959
Malleable:					
Outside sales	16.3	13.3	15.5	14.3	16.1
GM divisions	83.7	86.7	84.5	85.7	83.9
Total	100.0	100.0	100.0	100.0	100.0
Armasteel:					
Outside sales	19.6	17.2	18.8	22.7	23.3
GM divisions	80.4	82.8	81.2	77.3	76.7
Total	100.0	100.0	100.0	100.0	100.0
Grey iron:					
Outside sales	2.0	2.0	2.3	1.5	1.1
GM divisions	98.0	98.0	97.7	98.5	98.9
Total	100.0	100.0	100.0	100.0	100.0
Aluminum:					
Outside sales	2.1	2.1	.7	.5	.6
GM divisions	97.9	97.9	99.3	99.5	99.4
Total	100.0	100.0	100.0	100.0	100.0
Heavy alloy:					
Outside sales	16.1	19.5	20.5	10.5	6.9
GM divisions	83.9	80.5	79.5	89.5	93.1
Total	100.0	100.0	100.0	100.0	100.0

I call attention to the fact this includes iron as well as aluminum because Central Foundry started as a ferrous foundry.

Mr. YATES. That schedule may be accepted in the record without objection.

Mr. SKINNER. Thank you.

For the 3-month period ending March 31, 1960, the total sales of aluminum castings by Central Foundry Division totaled $4,518,357 of which $2,040 represented sales of replacement parts to a manufacturer of washing machines. There were no other sales of aluminum castings to outside customers.

CONCLUSION

We see no reason to believe that there will not be an increased usage of aluminum in the manufacture of automobiles in the future which should be of benefit to everyone in the industry. However, continual and imaginative experimentation for the purpose of seeking out new applications and substitutions will be necessary.

In this area, the efforts of General Motors will be directed toward developments that promise to bring greater value and improved performance to motor vehicles.

I thank you for your attention.

I should like to ask, Mr. Chairman, if the chart that was previously examined, showing the operations in the three foundries may be entered into the record?

Mr. YATES. It may be accepted into the record at this point.

Mr. SKINNER. Thank you, sir.

(The document referred to follows:)

Aluminum castings shipped and employment at location shown

Year	Jones Mills				Massena				Bedford				Total			
	Total pounds castings shipped	Total pounds castings shipped outside GM (included in total)	Percent outside sales to total shipments	Employees	Total pounds castings shipped	Total pounds castings shipped outside GM (included in total)	Percent outside sales to total shipments	Employees	Total pounds castings shipped	Total pounds castings shipped outside GM (included in total)	Percent outside sales to total shipments	Employees	Total pounds castings shipped	Total pounds castings shipped outside GM (included in total)	Percent outside sales to total shipments	Employees
1950	500,000	----------	0	68	----------	----------	0	----------	17,692,000	22,763	0.1	1,424	18,192,000	22,763	0.1	1,492
1951	1,431,385	----------	0	130	----------	----------	0	----------	19,490,127	74,196	.4	1,816	20,921,512	74,196	.4	1,946
1952	1,635,695	----------	0	170	----------	----------	0	----------	17,410,995	159,466	.9	2,054	19,046,690	159,466	.8	2,224
1953	2,596,334	658,121	25.3	232	----------	----------	0	----------	20,204,113	44,340	.2	2,149	22,800,447	702,461	3.1	2,381
1954	3,811,573	617,696	16.2	281	----------	----------	0	----------	16,702,768	9,166	.1	1,815	20,514,341	626,862	3.1	2,096
1955	10,833,953	388,885	3.7	370	----------	----------	0	----------	23,099,114	69,016	.3	1,762	33,933,067	457,901	1.3	2,132
1956	18,218,966	137,803	.8	281	----------	----------	0	----------	16,302,053	129,692	.8	1,463	34,521,019	267,465	.8	1,744
1957	16,905,950	----------	0	255	----------	----------	0	----------	15,239,107	197,512	1.3	1,224	32,145,057	197,512	.6	1,479
1958	12,479,616	----------	0	170	----------	----------	0	----------	11,151,000	76,862	.7	899	23,630,616	76,862	.3	1,069
1959	15,275,872	----------	0	216	[1] 13,521,000	----------	----------	[2] 755	13,218,299	35,925	.3	1,115	42,015,171	35,925	.1	2,086
1960	----------	----------	----------	[3] 218	----------	----------	----------	[3] 944	----------	----------	----------	[3] 840	----------	----------	----------	2,002

[1] Molten metal starting June 1959.
[2] Average employment June 1959 through December 1959.
[3] Estimated.

Mr. YATES. Mr. Skinner, we thank you for a very fine presentation, Again let me say we regret the interruptions in your testimony.

I note from your statement that you are renegotiating your first contract with Reynolds and seeking to eliminate that provision which requires you to take a minimum, as I remember your statement.

Mr. SKINNER. That is correct.

Mr. YATES. Does your molten-metal contract with Alcoa require you to take a minimum amount?

Mr. SKINNER. Minimum amount. I would have to ask Mr. Boone.

Mr. BOONE. The Alcoa contract does not require any minimum amount. It sets a maximum amount that we can take under the contract.

Mr. YATES. If you wanted to stop the flow of metal during any time during the contract, could you do so?

Mr. BOONE. Yes; we could under the contract. We could stop the flow.

However, Mr. Chairman, we will submit the contract, I have it in my hand.

Mr. YATES. I know the contract speaks for itself but we have not had an opportunity to examine that and that is why I asked the question.

Mr. BOONE. They are not required to deliver more than 6-million pounds a month under the contract.

Mr. YATES. Then there is no corresponding commitment on your part with respect to taking a minimum.

Mr. BOONE. No, sir; there is not.

Mr. YATES. Do you—what is the amount——

Mr. BOONE. Mr. Chairman, I didn't mean to interrupt you but I wanted to point one thing out and that is we do have to take 50 percent of that which we actually use.

Mr. YATES. Yes.

Mr. BOONE. At the Bedford Foundry.

Mr. YATES. But there is no time stated in it.

Mr. BOONE. No; we have to take 50 percent of our demands at the Bedford Foundry. If our demand is nothing then of course we would not have to take anything.

Mr. YATES. And the price of 99.5 percent aluminum pig as quoted in the American Metal Market during the preceding calendar month.

Mr. BOONE. That is correct.

Mr. YATES. Less the discounts that are stated in the contract.

Mr. BOONE. That is correct.

Mr. YATES. What about the future of the foundry? The foundries were the ones who expressed alarm at the possibility of General Motors going into the casting business.

Do you contemplate that the Central Foundry division will continue to grow and you will compete with other foundries for the foundry market?

Mr. SKINNER. Well, as we pointed out in the statement, there are no outside sales from Jones Mills or Massena, and we also stated that we did not think there would be any appreciable change in the historical pattern at Bedford, and we showed the pattern there, which varied somewhat, but was a very small percentage of the total.

I don't see how we can make it any clearer than that, and I think that the advent of the advertising, which is more of a notice in trade

papers than an ad, probably exaggerated the situation and understandably made some people concerned about what we were going to do. But the reason for the ad was primarily to let everyone in the industry know that the Central Foundry, which had been quite prominent in the ferrous field for many years, and particularly in the development of new methods and new processing, was now, because of the change in our management setup, now in the aluminum business, and would, as they have done in the ferrous field, work on new products and new methods and new ideas for the improvement of the casting industry as a whole.

So that I would say that hopefully we expect to do just that. That will take a lot of doing, and only if we do something like that would we be in any greater participation out of Bedford than we have been.

Mr. YATES. All right. Mr. Dalmas.

Mr. DALMAS. I have no questions, Mr. Chairman.

Mr. YATES. Well, Mr. Skinner, we thank you very much for your excellent cooperation with this committee and for the pains you went to in bringing the model in which was a most interesting exhibit, and for providing us with pictures of ladles and of the manner in which the molten metal is transported.

It is the first time actually that I have had a visual image of what is involved in the sale and transportation of molten metal, and we are grateful for that.

I would be interested in finding out from somebody just how far molten metal can be transported. If it can be transported 115 miles, I wonder what the actual limits are, whether they are 200 or 300?

Mr. SKINNER. We went from nothing to 115 miles in a couple of years, so I don't know where we will go.

Mr. YATES. If this be true, I don't know why eventually the primary producers can't be expected to sell their molten metal to extruders or anybody else who want it. I suppose that is a question of development for the future. Thank you very much.

Mr. SKINNER. Thank you very much, Mr. Chairman.

Mr. DALMAS. Mr. Chairman, since you brought it up I think it might be interesting if Mr. Skinner would take 1 minute in stating the security measures they use in transporting the ladles——

Mr. SKINNER. Part of the development, of course, was to make sure that all concerned, and particularly the State highway people would be assured of no additional hazards on this highway, and a lot of work has been done on that, and as the picture demonstrates, the large ladle which holds some 11,000 pounds, is heavily insulated, and is also covered tightly and completely secure from any spillage or any leakage, even if there should be an accident to the truck itself.

Mr. DALMAS. Mr. Boone told me during the recess that the truck can turn over but the ladle would still be intact, there wasn't any possible way to open it.

Mr. SKINNER. That is correct.

Mr. YATES. Thank you, Mr. Skinner.

Mr. SKINNER. Thank you, Mr. Chairman.

Mr. YATES. Mr. Favorite. Mr. Favorite, won't you have a seat and then I will pose our problems to you.

(Short recess.)

Mr. YATES. The committee will come to order again.

Mr. Favorite, we are glad to have you before our committee. We remember very well the testimony of your predecessor, Mr. Wilmot, before this committee. I understand he has retired and I hope he is enjoying his retirement, and we will be delighted to hear whatever you have to say.

TESTIMONY OF LEWIS P. FAVORITE, VICE PRESIDENT, ALUMINUM CO. OF AMERICA

Mr. FAVORITE. Thank you.

I am Lewis P. Favorite, vice president of Aluminum Co. of America. I am in charge of product sales and commercial research for Alcoa.

On behalf of Alcoa, I wish to thank your subcommittee for giving us this opportunity to present our views on certain matters of interest to small business firms in the aluminum industry.

I can assure you that we have a sincere interest in small business. The vast majority of our 13,000 customers are small firms. It has always been our aim to help these, as well as all our other customers in every way possible, with the hope that they will continue to grow and prosper. Selfishly, we hope that they will become ever larger buyers of Alcoa aluminum.

These hearings give us a chance to clarify our position on some matters, a position which may not be either fully understood or fully appreciated by small business as well as by others.

Broadly speaking, we at Alcoa foresee a brilliant future for all competent firms in the aluminum industry, regardless of size. Despite the setbacks caused by the 1957–58 recession and the present excess capacity over demand, Alcoa's optimism has not lessened at all. Our optimism extends to and includes the belief that the nonintegrated users or fabricators of aluminum, large and small, may look forward to an important participation in the future growth of the aluminum industry.

There are three contributing and dependent factors leading to our optimism for the nonintegrated fabricators' future:

(1) Continuing growth of aluminum markets;
(2) An abundant supply of aluminum; and
(3) Freedom from restraints on entry into aluminum fabricating operations.

Let me briefly explain these factors.

First, we believe that markets for all kinds of aluminum products will exhibit substantial growth in the years ahead. Although per capita consumption of aluminum in the United States is nine times as much today as it was before World War II, we are certain that it will continue to multiply. New applications are constantly being developed and it appears that the market potential in many areas has been little more than scratched.

We are proud of the fact that this market growth is supported and in large part generated and fostered by Alcoa's continuing heavy emphasis on research and development as the means of creating new and improved products, and new fabricating and processing techniques, which will enable aluminum to compete more effectively against other materials.

Alcoa's expenditures for research and development have been mounting steadily year after year. During 1960, approximately $18 million will be spent for this purpose. We are not altogether altruistic; we expect such expenditures to do us some good. But we are sure they will benefit the industry in general.

Another stimulus to greater market growth is the extensive promotional, merchandising, and marketing programs carried on at considerable expense by the aluminum producers. Without question, aluminum is the most widely promoted metal in this country. A significant portion of Alcoa's sales dollar is devoted to many market promotion activities.

The second contributing factor to our optimism regarding the future of the nonintegrated fabricators is the abundant supply of aluminum. Hearings held by this subcommittee 5 years ago were devoted to problems associated with a supply inadequate at that time to meet all demands. Since then, about 1 million tons of new domestic primary aluminum capacity have been added and another quarter of a million tons is under construction.

On the other hand, demand for aluminum in 1959, as measured by net shipment figures compiled by the Department of Commerce was slightly less than a half-million tons higher than in 1955, and 1959 was a record high. Thus, while the increase in demand during this 4-year period was an impressive 24 percent, the increase in domestic primary production capacity was much greater, being more than 70 percent. Obviously, considerable leeway exists in domestic primary production facilities to handle a sizable increase in demand for aluminum products. As shown later, Alcoa is not content to rest on this, but anticipates still further increases in its capacity.

In addition to the rapid buildup in primary capacity in the United States, and even without considering increases in secondary production, companies in many other countries throughout the world have also expanded their facilities.

Outstanding in this respect is Canada, where capacity has increased by one-third since 1955, more than 200,000 tons capacity having been installed during this 4-year period. Two Canadian producers have announced that they can make sizable additions to their capacities when conditions warrant. There is little doubt that the large and growing American market will continue to be attractive to the foreign producers.

Completing our reasoning that small business firms can expect a glowing future in the aluminum industry is the fact that they can enter or expand into different kinds of fabricating and processing operations without hindrance. There is every reason to expect that the history of entry of small business into the aluminum fabricating operations will continue. There have been no technological or any other developments of a sort that would exclude or preclude potential competitors from entering any field of the aluminum industry.

On the contrary, there have been a number of technological developments that have made entry even easier in a number of fabricating areas.

The development of compact "packaged" mills, for example, may well enable small firms more easily to enter into the fabrication of certain products, by reducing the size of the investment required for

the necessary facilities. It seems reasonable to assume that similar developments will be forthcoming to an increasing degree from metalworking equipment manufacturers who have become and are becoming increasingly familiar with aluminum and its special characteristics.

In the background of those general comments as to how we view the future prospects of small business, I now turn to the specific subjects mentioned in your chairman's invitation to testify.

One of the items you mentioned in your letter, Mr. Chairman, was molten metal contracts.

Alcoa's long-established policy has been to sell primary aluminum to customers in the form of pig or ingot in various alloys, shapes and sizes. Adhering to this policy, Alcoa did not enter into any molten metal contracts until 1959, even though prior to that time one of its competitors had entered into three contracts to sell molten metal. The first of such contracts was entered into in 1952.

These contracts, which were between an integrated producer and automotive companies, provided for the sale of substantial quantities of molten metal over long periods of time. This molten metal under contract is generally consumed in foundaries owned and operated by the automotive company purchasers in the manufacture of aluminum castings.

The automobile industry is consuming larger quantities of aluminum each year, and the average consumption per car has nearly doubled in the last 5 years, averaging about 56 pounds in current models. Clearly, therefore, this is a substantial and growing market for aluminum in which Alcoa had participated and wanted to continue to participate.

In 1959, General Motors Corp. asked for bids to supply molten metal for its foundry operation located at Bedford, Ind. Since the requirement was for molten metal, the only basis upon which Alcoa could participate in this business was to quote on molten metal. Moreover, the existence of three molten metal contracts, two of which were with General Motors, set a competitive pattern that had become a fact of life in the aluminum industry and one that Alcoa had to meet to participate in the business. Any other course of action by Alcoa would have allowed the business to go by default to an Alcoa competitor, a result which Alcoa management concluded would not be fair to the company's shareholders. Alcoa submitted a bid and was successful in concluding a contract with General Motors for selling molten metal f.o.b. Alcoa's new Warrick, Ind., smelter.

Construction of the Warrick Works was started in July 1956, and operations were scheduled to start late in 1957. The business recession, accompanied by a declining demand for aluminum and the existence of excess smelting capacity, caused Alcoa first to slow down, and then to suspend, construction in June 1959.

The signing of the General Motors contract late in 1959 provided the impetus for Alcoa to reinstate construction, and currently a force of 700 men is at work to bring one of the plant's five potlines into operation in the next few months.

The Warrick startup will provide jobs for approximately 300 production employees. When in full operation, the plant will employ about 1,200 persons. We are, of course, pleased to be able to place our Warrick Works in operation and to offer additional employment in the Evansville, Ind., area.

Another item, Mr. Chairman, was the alleged price squeeze that you mentioned in your letter to us.

The relatively low level of prices of soft alloy extrusions has resulted in a narrow spread between the price of the raw material—pig or extrusion ingot—and the price of soft alloy extrusions. Some nonintegrated firms have tried to place blame for this situation on the shoulders of the integrated producers. I state without qualification that Alcoa is not responsible for any alleged squeeze.

We do not deny, and in fact assert, that the spread between the price of the raw material—pig or extrusion ingot—and the price of finished soft alloy extruded products is too narrow. The cause, however, does not lie with Alcoa; rather, Alcoa is a victim of the situation.

In the face of ever lower prices quoted by its competitors, and the resulting loss of business, Alcoa had no recourse but to sell its finished extrusions on a competitive basis.

As permitted by law, Alcoa quoted prices below its published prices to meet the equally low prices of its competitors in individual cases. As such lower prices, quoted to meet competition, became more and more prevalent, Alcoa, to be realistic, had to revise its published prices to reflect the lower levels of actual prices. But even with these lower published prices, Alcoa encountered and still encounters even lower prices quoted by its competitors.

Despite this situation, however, the soft alloy extrusion business apparently continues to be attractive to the nonintegrated producers. At the end of World War II there were six nonintegrated extruders. This number grew to 33 in 1950, 106 in 1955, and to 127 at the end of 1959. Alcoa's share of the market in 1959 had decreased by more than 60 percent of its percentage of participation in the 1950 market.

Perhaps the answer to this seeming inconsistency is that the nonintegrated extruders have come to rely less and less upon the primary producers for their raw material. The use of secondary ingot by the nonintegrated extruders has grown sharply. A look at Alcoa's record clearly demonstrates our own loss of business as a raw material supplier to the nonintegrated extruders.

Using the Alcoa average of the years 1955 and 1956 as the base of 100, Alcoa's shipments of pig and ingot to nonintegrated extruders were at a level of 78 in 1957, 48 in 1958, and 38 in 1959.

Although Alcoa produces about one-third of the domestic production of primary aluminum, last year Alcoa supplied only a small percentage of the raw material required to produce the volume of shipments accounted for by the nonintegrated extruders. I assure you that we are not happy about losing this business.

Alcoa has been making soft alloy extrusions for more than a half century and expects to stay in the business. Certainly no one should argue, and I am positive this subcommittee will not assert, that Alcoa should retreat in the face of competition.

Our participation in the soft-alloy extrusion field has decreased steadily year by year since the end of World War II. We are, frankly, quite concerned that the business does not return to our shareholders a fair profit on their invested capital. There is no question but that low prices for extrusions have hurt Alcoa. Alcoa would very much welcome the existence of reasonable and fair prices for soft-alloy extrusion so that this segment of our business would return a fair and reasonable profit.

Whatever the answer may be, we are not convinced that we must allow the business to go by default. It cannot be that the law or economic philosophy of this country, each of which fosters competition, will turn upon the competitor and charge him with illegality or impropriety by virtue of engaging in that very competition.

Another item you asked me to comment on, Mr. Chairman, was the export of scrap.

Per capita consumption of aluminum outside the United States is about at the same level as was the domestic consumption of aluminum a quarter of a century ago. Even in Western Europe, use of aluminum on a per capita basis is only about a third as much as in the United States. The tremendous possibilities that exist for extensive development of aluminum markets in foreign fields is readily apparent.

For that reason, Alcoa has been taking an increasingly active interest in the oversea markets, now that conditions in the domestic market permit. Such foreign activities were not possible on any major scale while U.S. primary capacity was insufficient to meet domestic needs. Sales of Alcoa products, made in our own U.S. plants and marketed abroad, more than doubled in dollar volume between 1958 and 1959.

In our limited experience of recent years, we have learned firsthand that in order to carve a niche and become a factor in international markets, Alcoa must sell those aluminum products that are in demand. It so happens that aluminum scrap has been and is in heavy demand in Europe.

Alcoa, in the course of its operations, generates quantities of scrap which it finds difficult or uneconomic at times to absorb in its own system, and it has been selling some of this and other scrap abroad. While Alcoa is still a small factor in international markets, we are hopeful that meeting foreign demands will enable us to foster our relationships with foreign firms so that we can improve our international position and thereby take advantage of the growing overseas consumption of aluminum products. In so doing, we may have some small part in helping this country to solve its balance-of-payments problem, a problem which is of major concern to those responsible for our monetary and fiscal affairs.

Another item you asked us to comment on was mergers.

Although the letter from the chairman of your subcommittee inviting our views noted that one of the items to be discussed should be "accelerated mergers," a subsequent letter of April 26, 1960, from the chairman, requested that certain data with respect to "acquisitions and mergers" be submitted prior to the beginning of these open hearings. We submitted certain of the requested data in our reply of April 29, 1960.

(The above-mentioned letter from Mr. M. M. Anderson of the Aluminum Co. of America in respect to acquisitions and mergers is as follows:)

ALUMINUM CO. OF AMERICA,
Pittsburgh, Pa., April 29, 1960.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3
House Select Committee on Small Business,
Washington, D.C.

DEAR SIR: Mr. F. L. Magee has asked me to reply to your further letter of April 26, 1960, directed to him, in which you request certain information with respect to acquisitions and mergers.

Since January 1955, Alcoa has made acquisitions of all or substantially all of the capital stock or assets of two companies which would be within the scope of your inquiry. The transactions were as follows:

1. Acquisition of substantially all the assets of Rome Cable Corp., a New York corporation, on March 31, 1959, for a consideration of 355,226 shares of stock of Alcoa and the assumption of substantially all the liabilities of Rome.

2. Acquisition of all the capital stock of Cupples Products Corp, on January 22, 1960, for a consideration of 64,209 shares of common stock of Alcoa.

Rome Cable Corp, was and is engaged in the electrical conductor business, basically in copper conductors, but to a minor extent in aluminum. Cupples Products Corp. and a subsidiary were and are engaged principally in the fabricating, selling, erecting, and installing of aluminum window frames and doors and curtain walls.

Capacity with respect to fabricated products depends upon so many variable factors that we are unable to give you any meaningful figure of capacities of these companies.

Very truly yours,

M. M. ANDERSON.

Mr. FAVORITE. We wish to refrain from making further comments with respect to the acquisitions which Alcoa has made, since one of the acquisitions is already the subject of a court proceeding instituted by the Department of Justice and the other is under active investigation by the Department of Justice.

I feel that I may appropriately state, however, that prior to each of the two acquisitions Alcoa sought the advice of counsel and was advised that the acquisition was lawful in all respects and not in violation of section 7 of the Clayton Act.

EXPANSION PLANS

The entire history of Alcoa has been one of expansion to meet the growing demands for primary aluminum and its many mill products. We have learned from experience that in order to develop large new aluminum consuming markets there must be an assurance of an ample supply of the metal to satisfy the demands of these markets. Past history shows that many new markets were developed and others expanded only when the supply of metal was sufficient to assure designers and engineers that there would be an ample supply to fulfill the demand.

For example, there have been times in the past when the supply of aluminum was not ample to take care of any great expansion in the use of aluminum by the automobile industry. As soon, however, as the automotive engineers and designers were assured that the supply was sufficient, they began to incorporate aluminum into their cars, and the use has continued to grow.

Even though primary smelting facilities in this country are more than adequate to meet present demand, Alcoa currently has in various stages of construction in the United States a total of 207,000 tons of additional annual capacity which can be brought into production rapidly when demand warrants.

In addition, looking at the longer term, preliminary work is underway to construct additional power facilities at our Badin, N.C., Works, which will permit modernizing and enlarging its smelting capacity by more than 50,000 tons per year.

We are also in a position physically to add appreciable smelting capacity at other existing works and also to build several additional large smelters similar to the Warrick Works, which is presently designed to produce 175,000 tons of aluminum annually.

In the foreign field, we are backing up our expectations of future market growth by building new smelting facilities outside the country.

More than 2 years ago we signed an agreement with the Suriname, formerly Dutch Guiana, government in South America to proceed with a joint hydroelectric project known as the Brokopondo Development. Pursuant to this agreement, Alcoa will build and operate a 150,000-kilowatt hydroelectric installation on the Suriname River, together with a primary aluminum smelter having an annual capacity of 60,000 tons near the bauxite mining center of Paranam. The agreement also provides for the eventual construction of a bauxite refining, alumina, plant in Suriname.

Preliminary work in the form of camps, offices, shops, housing, bridge piers, and roads got underway last year and construction of the dam, powerhouse, and smelter will start this summer. The overall Brokopondo project is expected to cost Alcoa about $150 million.

While there are several hundred nonintegrated firms which buy aluminum pig and ingot from domestic and foreign producers and fabricate aluminum products therefrom, it is well to remember that there are at least 20,000 nonintegrated companies which use as their raw material not aluminum pig or ingot, but mill or semifabricated products, such as sheet, extrusions, tube, rod and bar, wire, stampings, and so forth. These fabricators look to Alcoa among many others for such mill or semifabricated products. They expect Alcoa to be able to furnish these products to them just as the users of pig or ingot expect a reasonable supply of their raw material to be available.

Therefore, Alcoa's policy is to try to keep its production facilities for both metal and mill products ahead of the demand to assure all types of customers that there is an ample supply of whatever products they need to satisfy their needs.

With a sufficient supply of raw materials and facilities for producing aluminum and making mill products, Alcoa is in a position to do its part to expand and create new markets through research and development, merchandising and promotion, and strong sales effort. We are counting on thousands of firms, large and small, to work with us to attain the growth we see ahead for the entire industry.

Mr. YATES. Thank you, Mr. Favorite, for a very fine statement.

Mr. FAVORITE. Thank you.

Mr. YATES. May I inquire whether you have had any offers for hot metal contracts from others than in the automobile business?

Mr. FAVORITE. Mr. Chairman, we have had one, to the best of my knowledge, only one, and that was received just recently; and we have that under consideration.

Mr. YATES. The extruders testified that they attempted to obtain a molten metal contract from Reynolds and were unable to do so.

In the event that they sought such contract from Alcoa, what would be Alcoa's reaction?

Mr. FAVORITE. We would certainly give it thorough study and take it under consideration, Mr. Chairman.

Mr. YATES. Does your contract with General Motors preclude your entering into similar contracts with other manufacturers—automobile manufacturers?

Mr. FAVORITE. No, it does not.

Mr. YATES. You export aluminum pig and ingot, do you not?

Mr. FAVORITE. Yes, sir.

Mr. YATES. Your oversea price varies from place to place, from country to country, rather?

Mr. FAVORITE. It can vary from country to country.

We ship metal overseas. I am talking primarily about pig.

Mr. YATES. Is your price in Western Germany the same as Reynolds—23½ cents?

Mr. FAVORITE. I would say it was, because you have to sell your product at the prices that are prevailing in those countries.

Mr. YATES. Why is the price lower than it is here?

Mr. FAVORITE. Why is it lower there?

Mr. YATES. Yes.

Mr. FAVORITE. I have no idea. The prices are not established by American producers. I am sure of that. It's a price that is established over there probably by producers in the area. We could not sell our product for more than the same product being sold in those areas.

Mr. YATES. I suggested to the Reynolds witness this morning, that the extruders' witness had testified that one of the members of his association was able to buy pig or billet at cheaper prices in Europe, ship it back to this country, and have a lower price than he could buy the same product for, from the Big Three. Is that conceivable, in your judgment?

Mr. FAVORITE. I think possibly it's conceivable. We have heard a rumor to the effect that some metal was returned to this country. We have tried to run that down. We have not actually found any of the metal ourselves being returned. I only heard of the one instance and that was only a rumor.

Mr. YATES. Is there a prohibition against your foreign customers selling the metal to customers of this country?

Mr. FAVORITE. No, there is no prohibition as far as our customers over there are concerned in possibly returning metal to this country.

On the other hand, we attempt, and make a real effort, to sell our metal abroad to those companies that consume metal—are users of the metal.

Mr. YATES. Do you know what the cost of transportation is for pig or ingot to West Germany?

Mr. FAVORITE. I do not know the actual cost; no, I do not, Mr. Chairman.

Mr. YATES. I would like to make an inquiry now about the statement that Mr. Starr of the extruders made in pointing out the fact that between January 1949 and March 1955 prices for semifabricated products had increased significantly, with the exception of 6063 extrusions.

You testified that the reason—no, you did not testify as to this. You testified that you were following the level of your competitors in meeting their prices on fabricated products.

Why did the price of 6063 alloy not go up as your other fabricated products went up?

Mr. FAVORITE. You mean the 6063 extrusions, is that it?

Mr. YATES. Yes.

Mr. FAVORITE. Alcoa publishes prices on its extrusions which are open to the public, and are public knowledge, of course. We have found that these prices are evidently a starting point where the competition can start to reduce prices. We could not sell our products, in competition with competitors who made the same products, at a higher price than they were selling at. In our opinion, the independent extruder is the one who has established these lower prices, and certainly we could just not sit aside and see this business taken from us by default. We had to meet the prices that were established by the independent extruder.

Mr. YATES. Do you think the squeeze is brought about by the extruders themselves?

Mr. FAVORITE. I certainly do, Mr. Chairman.

Mr. YATES. In this case it almost amounts to a death rate, does it not?

Mr. FAVORITE. Well, you can look at it that way, Mr. Chairman.

Mr. YATES. Because of the fact they are complaining about the Big Three having been the ones to resort to—as having been the ones who had done this in having raised the price of primary metal, and not raised the price of 6063 extrusion.

Mr. FAVORITE. That is not true.

The price of 6063 extrusions has gone up, I would say, every time that the price of metal has gone up, but certainly the independent extruders were quoting lower prices.

A good example of that, and I would just like to get it into the record, is, on December 17, 1959, Alcoa announced a price increase of metal and fabricated products, including 6063 extrusions. We were very hopeful that maybe the independent extruders would raise their prices. We found that in a matter of days the independent extruders were around to some of our own customers stating that they were not raising their prices, that they were extending the price in effect before December 17 for the first quarter of 1960.

Finally, a pattern was set from all the rumors that we accumulated from various sections of the country and that became a pattern; and again we had to follow that pattern in order to sell our products.

Mr. YATES. Do you have commodity prices as Reynolds does?

Mr. FAVORITE. Yes, we have commodity prices.

Mr. YATES. Are these lower than the general published prices?

Mr. FAVORITE. The general published prices?

Mr. YATES. The general published prices, the so-called——

Mr. FAVORITE. Yes, they are.

Mr. YATES. Why would a commodity price for a 6063 extrusion be lower than a 6063 extrusion to an ordinary purchaser?

Mr. FAVORITE. Commodity prices are usually lower than other prices——

Mr. YATES. Is there a reason for it?

Mr. FAVORITE. Other published prices. Yes, because we are trying to enter a market or enlarge a market. We are competing with other materials; it might be steel, it might be glass, it might be plastics, it might be any other materials. We are trying to enlarge the market for the use of aluminum.

Mr. YATES. How long does such a reduction prevail when you enter the truck trailer industry, for example, and have a commodity price which may be 4 cents below the general published price? Does it prevail for as long as a year?

Mr. FAVORITE. Yes, it does, Mr. Chairman. It might prevail for several years as far as that goes, until——

Mr. YATES. How long does it take to break in?

Mr. FAVORITE. Sometimes it takes a long, long while, Mr. Chairman, to get it accepted, and accepted fully.

Mr. YATES. Does Alcoa offer free warehousing to any of the customers?

Mr. FAVORITE. In the customers' plants?

Mr. YATES. Yes.

Mr. FAVORITE. No, sir.

Mr. YATES. Does it offer advertising allowances?

Mr. FAVORITE. We have an advertising program which is part of the overall company program in which we do have marketmaker plans, which are advertising plans for our customers. That is only true in certain areas, though. But all customers in those areas have the same plan offered to them.

Mr. YATES. Does Alcoa have a different basis for financing the purchase by its customers from one customer to the next? Do your credit terms vary from one customer to the next?

Mr. FAVORITE. No; our credit terms are the same for all customers.

Mr. YATES. So there is no discriminatory financing by purchasers?

Mr. FAVORITE. No, sir.

Mr. YATES. Did you—I don't know whether you were here yesterday when Mr. Sugar testified.

Mr. FAVORITE. No; I was not here yesterday.

Mr. YATES. He testified that Alcoa did have a deal with five companies for the sale of its siding and had an agreement with them whereby they were to receive 16 percent of sales as a profit.

Is such a contract in existence?

Mr. FAVORITE. When Alcoa decided to go into the siding business, and it was done after a very, very thorough study and research covering many months, we decided that we would merchandise and promote the sale of siding but the sale of the siding would be through already established building product distributors.

We have signed up with five nationally known distributors of building products. We are selling these distributors our aluminum, Alcoa

aluminum siding, at a price which was established by the independent rollers of siding.

We have not cut that price, or resell our siding below that price.

We do recommend to these distributors, who, by the way, I might say, are superdistributors—we recommend the retail price of the siding.

We offer these distributors, these five distributors, a functional discount and that is all. I would say that they are on the same, these distributors that we have, in selling this product, are on the same basis, sell it on the same basis—at least our recommendation to them is to sell it on the same basis as the other independent fabricators of siding. I would just like to mention, when we decided to go into—to enter into the aluminum siding market, at the time the price was $24 per square; that is, per 100 square feet.

Before we announced that Alcoa was entering the siding business, although the rumor had leaked out, the price had dropped to $21.95 per square. It certainly is a coincidence that just when we would decide to go into the siding business that the market for siding was reduced from $24 per square to $21.95 per square. In the meantime, the price has increased to $22.95 per square.

Mr. YATES. What conclusion do you draw from the fact that the price was dropped—they were trying to keep you from going into business?

Mr. FAVORITE. I think a conclusion could be reached to that effect; yes sir.

Mr. YATES. I would have some difficulty in trying to believe that the siding manufacturers could prevent Alcoa from entering the business if it wanted to. I think Alcoa has sufficient assets to take care of itself.

Mr. FAVORITE. I assure you, Mr. Chairman, they did not.

Mr. YATES. As I say, I have difficulty coming to the same conclusion that you do. However, you give these five companies a functional discount; is that correct?

Mr. FAVORITE. Yes, sir.

Mr. YATES. Do you warehouse the product for them? How do you make distribution of your product?

They actually engage in selling the Alcoa siding?

Mr. FAVORITE. That is right.

Mr. YATES. All right. And they send it to you for shipment?

Mr. FAVORITE. They send the orders to us, and we bill these five distributors individually.

Mr. YATES. Do they warehouse any of your product?

Mr. FAVORITE. Yes; they do.

Mr. YATES. They do.

Mr. FAVORITE. Others are direct shipped, by the way.

Mr. YATES. What credit terms do you have with them?

Mr. FAVORITE. Our terms with them are net cash 30 days from date of invoice, I believe.

(Letter dated May 11, 1960, from Aluminum Co. of America follows:)

ALUMINUM CO. OF AMERICA,
Pittsburgh, Pa., May 11, 1960.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3,
House Select Committee on Small Business, Washington, D.C.

DEAR SIR: At page 413 of my testimony given before your subcommittee on Wednesday, May 4, 1960, the following question and answer appeared:

Mr. YATES. What credit terms do you have with them?

Mr. FAVORITE. Our terms with them are net cash 30 days from date of invoice, I believe.

The reference in the question was to the five national distributors to whom we sell our siding and who operate in effect as superdistributors of the siding.

You will note that my answer was given on the basis of my belief, and although I felt reasonably sure of the fact, I checked into it since I returned to Pittsburgh. I find that my belief was essentially correct and our regular terms to these five national distributors are net cash 30 days from date of invoice. However, I am informed that in order to permit an initial building of warehouse stocks in our national distributors warehouses and in the warehouses of wholesale distributors to whom they sell, we did grant 90-day terms for a period which will expire on May 31, 1960; that is, shipments made on or before May 31, 1960, will be at the 90-day terms and shipments made after that date will then be on the regular 30-day terms.

At page 411 of my testimony in speaking of our selling to these superdistributors, I said: "I would say that they are on the same, these distributors that we have, in selling this product, are on the same basis, sell it on the same basis—at least our recommendation to them is to sell it on the same basis as the other independent fabricators of siding."

In point of fact the other independent fabricators of siding sell on an f.o.b. mill basis without any allowance for transportation, whereas our suggested resale prices to our superdistributors are on a delivered price basis having been computed by adding an average transportation cost to the going f.o.b. mill price. The result is that our suggested resale price in dollars and cents is higher than the f.o.b. mill price.

I am quite sure that these comments will make no basic difference in the purport or effect of my testimony but I felt that you should be informed of the precise situation so that there is no possibility of my testimony being thought to be misleading.

Very truly yours,

L. P. FAVORITE, *Vice President.*

Mr. YATES. Are there any variations in that?

Mr. FAVORITE. No, there would be no variations in any of the five.

Mr. YATES. I note from Mr. Sugar's testimony in which he says at page 206 of the transcript:

Mastic told me the credit terms they could receive was anything they wanted, 90 days or 120 days if they wanted it.

Mr. FAVORITE. That is not true, that is not a fact.

Mr. YATES. That is not true. Is this an unusual way for Alcoa to market its product?

Mr. FAVORITE. Not necessarily. We felt that in this particular case that here were five companies well established in the building products field, in other words they had a readymade, tailormade sales force that could start selling this product immediately. Alcoa would have had to train a sales force, and we decided that the best thing to do was to go to the other route.

Mr. YATES. Do you do this in the sale of any other of your items?

Mr. FAVORITE. Yes, we do.

Mr. YATES. Do you have distributors?

Mr. FAVORITE. Yes, sir.

Mr. YATES. In what other instances is this done?

Mr. FAVORITE. Electrical conduit is sold through jobbers.

Mr. YATES. Under the same sort of arrangement.

Mr. FAVORITE. No, a different arrangement but the same idea as far as moving the item through jobbers.

I might also add, Mr. Chairman, we have general distributors who also sell our general mill products through the distributing outlets.

Mr. YATES. Mr. Sugar testified, too, as follows:

I had been told by one of the Alcoa people the program is to give their distributors that markup regardless of what the price is.

I assume that is the 16 percent profit to which they referred, is that your functional discount? What is the functional discount to which you refer?

Mr. FAVORITE. Mr. Chairman, I would prefer not to mention that if possible.

Mr. YATES. I don't want to press you on it but is it a fixed discount no matter what the price is?

Mr. FAVORITE. We have a functional discount that we give all distributors of this product and it is all the same to all distributors.

It is given only on the price that we sell the product to the distributors. If the distributor sees fit to possibly meet competition in any area that he desires to, that does not affect the commission or the functional discount that we pay the distributor.

Mr. YATES. The discount is from the price at which the distributor buys the siding from you.

Mr. FAVORITE. And only that.

Mr. YATES. That's right. So if the distributor drops the prices his discount will permit him a lower return, is that right?

Mr. FAVORITE. That is right. He absorbs that if he does that.

Mr. YATES. Mr. Dalmas?

Mr. DALMAS. Thank you, Mr. Chairman.

Mr. Favorite, I asked our previous witness, in the producing end of aluminum, a question regarding methods of pricing and as I told the witness, we have a great many complaints, as the chairman has indicated, pertaining to price discrimination and price squeezes and so on.

And recently I took occasion to acquire or borrow a couple of price books and in the various categories there are, of course, as you well know, hundreds and hundreds and hundreds of prices for various and sundry products of various qualities, sizes, and kinds.

Now my basic question is this, and I think it is important to the committee and the industry if we can learn, beginning with the raw material, the pig, and going on through to your bars and plates and sheets and your rounds and half rounds and so on, clear on through the several categories, whether or not as is the case in the steel industry, you have certain base prices in each category, and you figure your variations from the base prices through price extras. And I will ask you whether or not this is the case with Alcoa.

Mr. FAVORITE. I can understand why you might be confused due to the large volume of price sheets that are involved in the aluminum industry because we do produce just thousands and thousands of individual items.

In most of our mill products we do have a base price and we have extras for many, many things, such as tolerance extras, finishing extras, quantity extras. These are all extras that are added to the base price. These are all published prices, and are really public knowledge.

Mr. DALMAS. Then you do have what might be called a pricing system or formula for pricing your semifinished and finished products on the basis of certain sizes, kinds, and qualities?

Mr. FAVORITE. That is correct, sir.

Mr. DALMAS. You spoke of the fact that your independent competitors rather than yourselves, as some of the witnesses have stated, have brought about a lower price in end products and in extrusions, and so on. What happens then in the sale of these products? Do you go out and meet the price, item by item, or is there a general policy of meeting competition which exists, so that when your salesmen are up against it they are permitted to meet such competition? What is the case?

Mr. FAVORITE. No; we met competition item by item and by customer, individual customer.

Mr. DALMAS. Well, for example, take a sheet an eighth of an inch thick, we will say 44 by 144, just to take a figure, and that may be a very standard sheet in a lot of industries. Then it might be a very popular sheet. It might be one on which your independent rolling mill competitors are desirous of getting a lot of the business on. In that event would you go out and meet prices on that particular item while sheets of all other thicknesses and sizes remained the same, or would you make a general cut in the base sheet price?

Mr. FAVORITE. No; we would not make a general cut in the base sheet price. We would meet an individual competitive situation at an individual customer's plant.

Mr. DALMAS. On an individual commodity.

Mr. FAVORITE. On the individual commodity.

Mr. DALMAS. And based on that, to your best knowledge and belief, would be the price you have to meet?

Mr. FAVORITE. And we try to get very good evidence that we are meeting a legitimate lower price.

Mr. DALMAS. Thank you; that is all, Mr. Chairman.

Mr. YATES. I have one more or two more questions: Mr. Sugar testified, too, that his company had made sidings for Alcoa and charged them $22.50. The same sidings were sold in National Homes for $19.75. Was this your understanding of the deal, too?

Mr. FAVORITE. Well, I am not just familiar with that particular instance that you mention there. It is possible that it could have happened. I am not familiar with it, sir.

Mr. YATES. Those are all the questions I have, Mr. Favorite. Thank you very much for coming in and giving us the benefit of your information and your experience.

Mr. FAVORITE. Thank you very much, Mr. Chairman.

Mr. YATES. We have one more witness today and that is the Ford Motor Co., if they will defer for us a moment while I answer a quorum call. I will be back.

(Short recess.)

Mr. YATES. Now we have the gentlemen from Ford.

Mr. CAMERON. Mr. Chairman.

Mr. YATES. Yes.

TESTIMONY OF JAMES L. CAMERON, DIRECTOR OF SUPPLIER RELATIONS, FORD MOTOR CO.; ACCOMPANIED BY MARK RICHARDS AND RICHARD I. FRICKE, COUNSEL

Mr. CAMERON. My name is James L. Cameron, and I am director of supplier relations of Ford Motor Co. I have with me today on my right Mr. Mark Richards, of the purchasing office, and Mr. Richard I. Fricke, staff attorney as my counsel.

As previously advised, Mr. Chairman, Mr. E. G. Ward, vice president of purchasing from our company hoped to be able to attend these hearings.

He will be unable to appear however due to the problems outlined in his letter to the subcommittee dated April 27.

Consequently, I would like to read Mr. Ward's statement to the subcommittee for the record, and thereafter to append a few additional remarks.

My name is Earl G. Ward, and I am vice president, purchasing, of Ford Motor Co. I am appearing before the subcommittee in response to the invitation extended by the chairman, Congressman Yates, in his letter of April 20, 1960, to Henry Ford II, president of our company.

In the letter, it was stated that the subcommittee was interested in having a representative of Ford Motor Co. testify as to the future uses of aluminum in the automobile industry by our company.

You may recall, Mr. Chairman, that on November 19, 1957, I testified before this subcommittee with respect to our plans and our predictions as to the long-range outlook for the future uses of aluminum by Ford Motor Co. There is very little that I can add to my formal statement and testimony in 1957 on this subject. At that time, I made the statement, which still holds true, that in connection with the design of automobiles and trucks to be produced by Ford Motor Co. in future years, we are giving constant consideration to the use of aluminum for the many parts of the vehicle where its properties may be advantageous.

I also stated that the extent to which aluminum will be used is dependent, of course, upon a number of factors, including the technological developments in the industry. Styling trends obviously enter into the picture, as does the question of the relative economy of the metal as compared with an alternative material where either one would be equally suitable from functional and styling standpoints. I further pointed out that at that time we were considering the use of additional aluminum in several broad categories, including electrical parts, components involving heat exchange, decorative trim, and structural and functional parts.

Subsequent developments have proven that the prediction that we made in 1957 with respect to an overall increase in the use of aluminum by Ford Motor Co. was reasonable.

My statement to the subcommittee in 1957 was to the effect that in 1954, our usage of all aluminum products for automobiles and trucks (excluding tractors) was approximately 56 million pounds per year.

I stated that it was estimated that by 1959, our demand for aluminum products for automobiles and trucks would be approximately 127 million pounds per year, an increase of 71 million pounds per year during the 5-year period.

Our subsequent actual experience in 1959 resulted in a total usage of such aluminum products of approximately 102 million pounds for that year, but this still represented an increase of over 80 percent from the usage in 1954.

During the model year 1960, it is estimated that our usage of aluminum for automobiles and trucks will decline slightly from the 102 million pounds in 1959 to an estimated 94 million pounds in 1960.

The principal reason for the anticipated slight decline is the outstanding public acceptance of our new Falcon automobile, which contains less aluminum than the conventional Ford automobile.

The 1958 Ford model cars utilized an average of about 48 pounds of aluminum. The comparable figure for 1959 was 57 pounds. Our current 1960 Fords utilize an average of 60 pounds of aluminum. The Falcons, however, utilize an average of only 40 pounds, although the percentage of aluminum to the total weight of the vehicle even slightly exceeds that of the conventional Ford.

By 1961, although we expect to continue to sell substantial numbers of compact cars, we nevertheless anticipate a further increase in the total usage of aluminum by our company.

Within the next 5-year period, we foresee continued increases in the usage of aluminum approximating a 40-percent increase in the current rate of consumption.

This would represent an additional increase of perhaps another 40 million pounds in the annual rate. The many variables to which I have referred, including the significant factor of the future volume of production of vehicles, could affect this expectation substantially in either direction.

In summary the factors influencing the future trend toward increased uses of aluminum by our company have not changed materially since the date of my prior appearance before the subcommittee in 1957, and we at Ford continue to be optimistic as to the prospect of the continuation of this growth.

Thank you, Mr. Chairman.

That concludes Mr. Ward's formal statement. I would like to add that we have anticipated that one of the primary interests of this subcommittee would be to learn the effect, if any, of our operations at Sheffield, Ala., upon small business concerns who supply aluminum parts to Ford Motor Co.

An analysis of our purchase records indicates that our small suppliers of aluminum parts have held their own in the current (1960) model year, compared with 1957, the model year which immediately preceded the commencement of operations at Sheffield.

And looking ahead to the 1961 model year, it is expected that these smaller suppliers will substantially improve their position—not only on a percentage basis, but on a dollar basis as well.

Looking at the situation regarding firms employing less than 500 employees and those employing less than 100 employees, we find the following results:

With regard to firms employing less than 500 employees, the actual dollar volume of purchases of Ford aluminum parts from these suppliers was about $8 million during the 1957 model year, or 16 percent of total aluminum parts purchases from all suppliers.

In the current 1960 model year, the dollar volume of such purchases will approximate $7.5 million, or 21 percent. For the 1961 model year the respective figures are expected to increase to $11 million, and 25 percent.

With regard to the smallest of these suppliers, those with less than 100 employees, the comparable figures are as follows:

In 1957, the dollar volume of purchases from these firms was about $3 million, or 6 percent of total aluminum parts purchases.

In 1960, the dollar volume will be about $3.8 million, or 11 percent; and in 1961 the forecast is for dollar purchases of $6.3 million, or 14 percent. It is clear, therefore, that these smallest firms have

substantially improved their position during the period of our Sheffield operations.

The reason that smaller firms have continued to participate so heavily in our purchasing is that we have found throughout the years that many items, particularly low volume and specialty items, are well suited to the flexible and efficient small fabricator.

Despite the fact that automobile manufacturing is a mass production industry, there has always been a great need for such specialization and prompt adaptability on the part of many of our suppliers, and smaller firms can usually best meet our requirements in these fields.

Thank you.

Mr. YATES. Thank you very much for your statement, sir.

Do the hot metal contracts supply you with all your needs for aluminum?

Mr. CAMERON. Indeed they do not. We have two other substantial operations that require aluminum. We have a plant in Sandusky, Ohio, that uses large quantities of secondary aluminum.

We have another plant in Rawsonville, Mich., that uses large quantities of secondary aluminum, and also we have some minor requirements in our steel mill and elsewhere.

Mr. YATES. Do you buy all your aluminum requirements from one producer or do you buy from all of the producers?

Mr. CAMERON. With respect to these other uses?

Mr. YATES. Yes.

Mr. CAMERON. We buy them from a number of different suppliers on a competitive basis.

Mr. YATES. Mr. Dalmas?

Mr. DALMAS. No questions, Mr. Chairman.

Mr. YATES. Thank you very much for coming in. Again let me express my feelings and I am sorry we had these interruptions and we were compelled to keep you this late today.

Mr. CAMERON. Thank you very much.

Mr. YATES. I hope everything turns out well for Mr. Ward.

Mr. Reporter, will you put in the record at this point a list of the mergers and acquisitions by industry group and asset size of acquiring concern relating to the aluminum industry, 1955 through 1959, as furnished to this committee by the Federal Trade Commission?

(The documents referred to follow:)

Special List (Aluminum)

LISTING OF MERGERS AND ACQUISITIONS BY INDUSTRY GROUP AND ASSET SIZE OF ACQUIRING CONCERN
For the year 1955

ACQUIRING CONCERN	ASSETS (millions)	CODE *	ACQUIRED CONCERN	ASSETS (millions)	DATE	CONTROL NO.
Sutherland Paper Co., Kalamazoo, Michigan (paper board and paper bag products--folding cartons, etc.)	42.7	M	Reish Products, Inc., South Bend, Indiana (aluminum foil products)			
Revere Copper & Brass, Inc., New York, N. Y. (fabricated metal products)	83.7	M	Standard Rolling Mills, Inc., Brooklyn, N. Y. (aluminum foil products)			
Reynolds Metals Co., Richmond, Virginia (aluminum foil, powders, sheets, rods, etc.)	436.6	OM	Cap De le Madeline, Quebec, Canada (aluminum sheet, coil, circles for pots and pans, roofing, etc.)			
Dayton Malleable Iron Co., Dayton, Ohio (steel and iron products)	15.2	M	Metal-Mold Aluminum Co., Cedarburg, Wisc. (mold aluminum castings)			
Harrisburg Steel Corp., Harrisburg, Pa. (steel products)	19.6	OM	Precision Castings Co., Fayetteville, N. Y. (castings of aluminum, zinc and brass)			
Club Aluminum Products Co., Chicago, Ill. (aluminum and glass cook ware, carafes, etc.)	2.5	WR	Housewares, Inc., Charlotte, N. C. (household items)			
Reynolds Corp., Richmond, Virginia (affiliate Reynolds Metals)		M	Southern States Iron Roofing, Savannah, Ga. (prefabricated buildings, steel and aluminum roofing, etc.)			
A. H. Wirz, Inc., Chester, Pa. (collapsible tubes, can spouts, etc.)		OM	American Extrusion Corp., Brooklyn, N. Y. (extruders of aluminum and zinc cans, cups, etc.)			

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Stanley Works, New Britain, Connecticut (steel hinges, wrought hardware, electric tools, etc.)	62.3	M	Denison Corp., North Miami, Florida (aluminum awnings, windows and doors)			
Pressed Metals of America, Inc. Port Huron, Michigan (automotive parts)	8.0	M	American Bantam Car Co. (aluminum windows, torpedoes, snow plows, chain hoists, etc.)			

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Cerro De Pasco Corp., New York, New York (mining of zinc, silver, lead and copper)	$175.9	M	Fairmont Aluminum Co., Fairmont, W. Va. (aluminum products, aluminum sheet, strip and foil)			
National Starch Products, New York, N. Y.	17.7	M	Sound Electronic, Inc. (aluminum patches)			
Textron American, Inc., Providence, R. I. (textiles)	170.2	M	Benada Aluminum Products Co., Girard, Ohio (storm doors, windows, awnings, etc.)			
National Lead Co., New York, New York (paints, pigments, chemicals)	336.4	M	Pioneer Aluminum, Inc., Los Angeles, Calif. (aluminum sheet, bar, rod, aircraft extrusions, etc.)			
Soil Builders International Corp. New York, New York (fertilizers)		OM	Aluminum & Chemical Corp., Newport, Ark. (aluminum rolling mill products)			
Aluminum Co. of America, Pittsburgh, Pa. (aluminum and magnesium)	1010.5	PA	Panelfab Products, Inc., Miami, Fla. (prefabricated aluminum panels and buildings)			
Bridgeport Brass Co., Bridgeport, Conn. (copper, brass, bronze, etc.)	61.3	M	Hunter Douglas Corp., New York, N. Y. (aluminum strip, cold extrusion and impact forgings)			
Kaiser Aluminum & Chemical Corp., Oakland, Calif. (primary aluminum)	372.1	M	Foil-Kraft, Inc., Los Angeles, Calif. (aluminum containers for frozen food industry)			

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Kaiser Aluminum & Chemical Corp. (continued)		M	Hokin Aluminum Co., Chicago, Ill. (sheet and strip)			
Reynolds Metals Co., Richmond, Va. (aluminum foil and household articles)	$486.1	WR	Arrow Brands, Inc., Long Beach, Calif. (aluminum foil for flower industry, foil gift-wrappings and printed decorative wrappings)			
Both (O. A.) Corp., Newton Lower Falls, Mass. (gold and aluminum bronze powder)		OM	Baer Bros. Bronze Powder Co., Inc. Stamford, Conn. (gold and aluminum bronze powders and liquids)			
Air-way Industries, Inc., Toledo, Ohio (portable electric cleaning machine)	10.0	M	Alumatic Corp. of America, Milwaukee, Wisc. (aluminum storm windows and doors)			
Read Standard Corp., New York, New York (mechanical stokers, railroad products, etc.)	7.3	M	Capital Products Corp. (aluminum doors and storm windows)			
Aluminum Industries, Inc., Cincinnati, Ohio (aluminum alloy castings, automotive engine parts, aluminum paints, varnishes, etc.)	7.5	M	Wisconsin Machinery & Mfg. Co. West Allis, Wisc. (motors, pistons and cylinder sleeves)			
Bohn Aluminum & Brass Corp., Detroit, Mich. (non-ferrous metals and metal products)	28.6	M	Betz Corp., Hammond, Indiana (heating equipment)			

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Apex Smelting Co., Chicago, Illinois (aluminum alloys, base alloys, etc.)	$11.2	PA	American Smelting & Refining Co., New York, N. Y.			
Fenestra Inc., Detroit, Mich. (doors, metal awnings, screens, etc.)	26.1	M	Thorn (J. S.) Co., Philadelphia, Pa. (steel and aluminum windows)			
Miami Window Corp., Hialeah, Florida (jalousies, aluminum curtain walls, etc.)	3.4	M	Sterling Equipment Mfg. Corp., Miami, Fla. (hotel and restaurant equipment)			
Standard Railway Equipment Mfg. Co. Chicago, Ill. (equipment for railroad freight cars)	18.3	M	Southwest Mfg. Co., Little Rock, Ark. (aluminum boats)			
Olin Mathieson Chemical Corp., New York, N. Y. (industrial chemicals, etc.)	621.7	M	Southern Electrical Corp., Chattanooga, Tenn. (aluminum cable, etc.)			
Air Control Products, Inc., Miami, Florida (windows, doors, jalousies, aluminum door threshholds)	5.5	M	Burnside Door & Plywood Co., Inc. Boca Raton, Florida (plywood)			
Plume & Atwood Mfg. Co., Waterbury, Conn. (brass, copper, steel and aluminum stamped and drawn work, etc.)	5.3	PA	Wheeling Stamping Co., Wheeling, W. Va. (Burner Division)			
Miami Window Corp., Miami Florida (awning-type windows, jalousies and doors)		M	Ohio Die Casting Corp., Columbus, Ohio (aluminum and zinc die castings)			
Anaconda Co., New York, New York (copper, zinc, silver, gold and brass mill products)	975.8	M	Cochran Foil Co., Louisville, Kentucky (aluminum foil)			

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Portal (H. K.) Co., Inc., Pittsburgh, Pa. (steel works and rolling mills)	$77.8	M	Cleveland Hardware & Forging Co., Cleveland, Ohio (drop forgings and aluminum die castings)			
Aluminum Co. of America, Pittsburgh, Pa. (aluminum and magnesium products)	1157.6	PA WR	Peabody Coal Co., Illinois Columbia River Orchards, Inc., Washington (fruit growers)			
Kaiser Aluminum & Chemical Corp., Oakland, Calif. (primary aluminum)	372.1	PA	U. S. Rubber Co., New York (wire and cable business)			
City Auto Stamping Co., Toledo, Ohio (assemblies for trucks, etc.)	20.6	M	Aluminum Seating Corp., Akron, Ohio (aluminum office chairs)			
Rome Cable Corp., Rome, New York (aluminum and copper cable)	22.9	M	Cape (T. J.) Inc., Pennsylvania (cable pulling tools)			
North American Aluminum Corp.		M	U. S. Hoffman Machinery Corp., New York (aluminum extruding and manufacturing)			
Aluminum and Chemical Corp., Greenwich, Conn. (aluminum slugs)		OM	Vico International Inc., New York (slide fastener machinery)			

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Unexcelled Chemical Corp., New York, New York (pyrotechnics, paints, varnishes, etc.)	$ 2.2	M	Jasco Aluminum Products Corp. New Hyde Park, New York (extruders of aluminum shapes)			
Brown-Allen Chemicals, Inc., Staten Island, N. Y. (vegetable and drying oils)		OM	Standard Magnesium Corp. (magnesium and aluminum ingots)			
Aluminum Company of America, Pittsburgh, Pa. (primary aluminum)	1,315.5	PA	Automation Instruments, Inc. (Transformer Division)			
American Brake Shoe Co., New York, N. Y. (steel castings, brake shoes, etc.)	114.0	M	Caine's Foundry Inc. (aluminum and magnesium castings)			
Reynolds Metals Co., Richmond, Virginia (aluminum ingots, pig sheets, etc.)	608.9	PA	Ekco Products Co., Chicago, Ill. (interest in Venesta, Ltd.)			
Bohn Aluminum & Brass Corp., Detroit, Mich. (non-ferrous metal castings and metal products)	29.2	M	Plastray Corporation, Detroit, Michigan (plastic ice cube trays)			
Plume & Atwood Mfg. Co., Thomaston, Conn. (sheet brass, copper, aluminum and metal fabricated products)	5.1	PA	Dorset Products, Inc., New York, New York (certain machinery, patterns and other equipment)			
Air Control Products, Inc., Miami, Florida (jalousie windows and doors, aluminum door threshholds, etc.)	6.2	WR	Allied Dairy Products, Inc., Miami, Florida (dairy products)			

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For the year 1958

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F. C. Russell Company, Cleveland, Ohio (aluminum steel screen and storm doors)	$ 7.9	M	Vun-Russ Company, Inc., Hialeah, Florida (aluminum jalousies, etc.)			
Arnold Altex Aluminim Co., Miami, Florida (aluminum windows, jalousies, etc.)	4.6	M	Industrial Die-Cast & Mfg. Co., Inc. Miami, Florida (machine tool attachments, etc.)			
American Duralite Company		OM	Duralite Window Corporation, Knoxville, Tenn. (aluminum window sashes)			
List Industries Corporation, New York, N. Y. (holding company)	82.7	M	Aluminum Industries, Inc., Cincinnati, Ohio (automotive engine and chassis parts)			

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For the year 1959

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Aluminum Co. of America, Pittsburgh, Pa. (products of primary aluminum)	$1,315.5	M	Rome Cable Corp., Rome, New York (copper and aluminum wire and cable)			
Kaiser Aluminum & Chemical Corp. Oakland, Calif. (aluminum pig, ingots, foils, bars, etc.)	742.2	M	Mexico Refractories Co., Mexico, Mo. (clay and silica refractory products)			
Reynolds Metals Co., Richmond, Virginia (aluminum ingot, pig sheets, rods, foil, etc.)	726.9	M	British Aluminum Co., Ltd., London, England (all phases of aluminum industry)			
Eastern Malleable Iron Co., Naugatuck, Conn. (iron, steel, aluminum castings)	9.9	M	Danforth Anchors, Berkeley, California (boat anchors)			
Hofman Industries, Inc., Sinking Spring, Pa. (aluminum and gray iron castings)	4.4	PA	Southwest International Corp.			
Aluminum & Chemical Corp., Greenwich, Conn. (aluminum slugs)		OM	Perfection Metal Products, Inc. Birmingham, Ala. (aluminum frames and components for aluminum screen and storm door industry)			
Adams Engineering Co., Inc., Ojus, Florida (aluminum jalousie windows, doors, etc.)	6.0	M	Nu-Idea Furniture Co., Sumter, S. C. (kitchen cabinets)			
Russell (F. C.) Co., Columbiana, Ohio (aluminum windows and doors)	7.5	M	Weather Wizard Aluminum Mfg. Corp. Garden City, N. Y. (aluminum windows)			
Miami Window Corp., Hialeah, Florida (aluminum windows, jalousies, screens, etc.)	4.8	M	Russell (Robert) Metals, Inc., Miami, Fla. (aluminum billets)			

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Skil Corp., Chicago, Ill. (portable electric saws and other tools)	$ 12.6	M	Nordon Die Casting Co., Maywood, Ill. (aluminum and zinc castings)			
Midland-Ross Corporation, Cleveland, Ohio (automobile, truck and jeep frames)	47.0	M	Nelson Metal Products Co., Inc. (Grand Rapids, Mich. (zinc and aluminum die castings)			
National Lead Company, New York, New York (aluminum, magnesium and copper base alloys)		M	Goldsmith Bros. Smelting and Refining Co. Chicago, Ill. (babbitt, precious, rare metals, etc.)			
Bohn Aluminum & Brass Corp., Detroit, Mich. (aluminum and brass forgings, castings, etc.)	25.6	WR	Port Everglades Steel Corp. Fort Lauderdale, Fla. (imports steel for construction)			
Russell (F. C.) Columbiana, Ohio (aluminum and steel combination screen and storm doors)	9.1	M	Radio-Matic Corporation, Cleveland, Ohio (electronic garage door operators)			
Bridgeport Brass Co., Bridgeport, Conn. (non-ferrous alloys, aluminum strips)	86.7	PA	Mallory-Sharon Metals Corp., Niles, Ohio (special metals and alloys)			
		M	Seymour Mfg. Co. (The) Seymour, Conn. (nickel, silver, etc.)			

* - Refers to nature of major activity of acquired concern and, for manufacturing and mining concerns, the source of record:

M - Primarily in manufacturing or mining and reported in Moody's Investor Service or Standard & Poor's Corporation Records.
CM - In manufacturing or mining but not recorded in Moody's or Standard & Poor's.
WR - Primarily in wholesale or retail trade.
SO - Services or other industry not included above.
PA - Assets acquired are less than a whole company.

Mr. YATES. The committee will recess until tomorrow morning at 11:30 in room 356, Veterans' Affairs committee room.

(Whereupon, at 4:50 p.m. the hearing recessed, to reconvene at 11:30 a.m. Thursday, May 5, 1960.)

SMALL BUSINESS IN THE ALUMINUM INDUSTRY

THURSDAY, MAY 5, 1960

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE NO. 3, ON FOREIGN TRADE AND
FOREIGN AID OF THE SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to recess, at 11:35 a.m., in room 356, House Office Building, Hon. Sidney Y. Yates (chairman of the subcommittee) presiding.

Present: Representatives Yates, Multer, Evins, Moore, and Derwinski.

Also present: Katherine C. Blackburn, research analyst; Marie M. Stewart, clerk of the full committee; and Victor P. Dalmas, adviser to minority.

Mr. YATES. The committee will come to order.

We have with us this morning Mr. Rhoades, of the Kaiser Co., and Mr. Rhoades, we would be very pleased to hear from you at this time. We are very glad to see you, Mr. Rhoades. We remember very well your last statement, and your appearance before the committee, and we know the information you give us will be of great value.

TESTIMONY OF D. A. RHOADES, PRESIDENT, KAISER ALUMINUM & CHEMICAL CORP.

Mr. RHOADES. Thank you very much.

My name is D. A. Rhoades. I am president of Kaiser Aluminum & Chemical Corp., and I am here in response to the invitation of Chairman Yates that a representative of Kaiser Aluminum appear as a witness before the committee.

Before commenting on the matters raised in the chairman's letter, I would like to make a few general remarks on the subjects that were of concern to the committee in the past.

When your letter was received, I naturally recalled some of the testimony at previous hearings in 1955 and the matters with which the committee was concerned at that time.

At the previous hearings, the committee was very interested in the question as to whether or not adequate supplies of primary aluminum would be made available to small business. Between December 31, 1955, and March 31, 1960, I am pleased to state the U.S. aluminum industry added 800,000 tons of primary capacity. Of this amount, over 200,000 tons were built by Kaiser Aluminum. At present, our estimate shows that of a total of about 2,400,000 tons of primary aluminum capacity in the United States, about 340,000 tons are idle.

The foregoing figures do not include an additional 240,000 tons of primary capacity which is under construction and nearly completed, making a total of about 580,000 additional tons available to meet increased demand over current requirements.

A second issue raised in previous sessions was the then relatively small number of primary producers in the industry. This was an outgrowth of historical industry conditions. There are today four new primary producers in this country, making a total of seven instead of three.

Another issue of concern to the committee has been the position of nonintegrated companies in the industry. I will discuss the specific situation of the extruders in a moment, but with respect to nonintegrated companies generally, Government records show that of total industry shipments in 1959 of approximately 1,700,000 tons of fabricated aluminum, 433,000 tons, or about 26 percent, were shipped by nonintegrated producers. This may be compared to 15 percent in 1950, which is a very favorable comparison when we consider that major companies such as Olin, Revere, Harvey, and Anaconda were classified as nonintegrated producers in 1950 and as integrated producers in 1959.

The shipments by nonintegrated companies increased by 270 percent in the decade, as compared to an increase of about 93 percent in shipments by integrated companies.

I think it is a fair comment that the industry has been able to come up with satisfactory solutions to these questions that were raised in the past.

The chairman's recent letter raised several subjects for discussion. In view of stories that have appeared in the press, and our own interest in the health of the industry, I would like to comment on some of the aspects of the extrusion industry.

First, I would like to point out that our major participation in the extrusion industry has historically been that of supplying primary aluminum to nonintegrated extruders.

We have consciously endeavored to direct our extrusion sales efforts toward hard alloy products, which very few nonintegrated extruders are equipped to produce. We have also concentrated on the development of new products such as extruded aluminum electrical conduit.

The development of this product required a substantial investment in auxiliary facilities in the extrusion plant, in order to produce the product most efficiently and enable us to sell it in competition with galvanized steel conduit. This effort has created a major new market for aluminum.

Excluding electrical conduit and hard alloy shipments, which have not been manufactured in volume by nonintegrated extruders, our estimates show that our participation in that portion of the market competitive with nonintegrated extruders is less than 4 percent. By contrast, our sales of primary metal to the nonintegrated extruders are several times the total of our sales of extruded products in this market.

With respect to the level of extrusion prices, which has been referred to by the extruders council, as I previously stated, we are a relatively small factor in the extrusion industry, but to the limited extent

that we do participate in this industry, we must price our products competitively on the basis of conditions that prevail.

In view of the fact that the committee has been studying the extrusion situation since 1955, it may be well to review what has occurred over the years in this industry.

At the time of the 1955 hearings, the total production of the nonintegrated extruders amounted to some 200,000 tons. In 1959, this volume had increased to 288,000 tons. Furthermore, Government figures show that the nonintegrated extruders' share of the market has held steady at about 54 percent. During this same 4-year period, the number of nonintegrated extruders increased by about 20 percent. In considering these figures, it should again be kept in mind that Olin, Revere, Harvey, and Anaconda have in the interim between 1955 and 1959, become integrated and have been reclassified as integrated producers for purposes of Government statistics for 1959. The actual growth of nonintegrated producers, therefore, is even greater than the figures indicate.

I am sure the tremendous growth of aluminum usage since World War II is well known to the committee. This growth has been accomplished in great part by intensive sales effort, advertising, promotion, research, and market development by the entire aluminum industry.

These efforts, together with the intrinsic advantages of aluminum, have popularized its use, have resulted in the development of new applications and products, and have opened up new markets in competition with other materials. The resulting growth in the use of aluminum has benefited the entire industry, both small business and large.

Looking forward, our sales forecasts, which are believed by some to be conservative, indicate that total aluminum shipments in the United States in 1965 will be about 4,200,000 tons.

This will be a very substantial increase over total industry shipments in 1959 of about 2,500,000 tons.

Development of this increased market, however, will require determined efforts on the part of all members of the industry. Realization of this growth potential will be to the advantage of large and small producers alike, and we feel that nonintegrated companies will continue to have an important and significant position in the aluminum industry of the future.

Mr. YATES. Thank you for a fine statement, Mr. Rhoades. You are not in the molten metal part of the industry, are you?

Mr. RHOADES. No.

Mr. YATES. In terms of servicing individual customers.

Mr. RHOADES. No; we have no molten metal contract.

Mr. YATES. Are there any in prospect?

Mr. RHOADES. I think, as I testified in 1955, and 1957, we have been talking to the automotive companies in connection with molten metal contracts for the last 8 years, I should say at various times, and I think, I believe, we will continue to do so.

Mr. YATES. It looks like the automobile companies have gone to the other producers though at the moment, does it not?

Mr. RHOADES. Yes.

Mr. YATES. Reynolds has it and Alcoa has it.

Mr. RHOADES. Yes.

Mr. YATES. And apparently Chrysler has made a deal with Aluminium for the use of one of its smelters and the organization of a new corporation and I wondered where Kaiser was moving in this pattern?

Mr. RHOADES. Well, we are still talking.

Mr. YATES. What about the possibility of other industries than the automotive industry, the appliance manufacturers, for example, and potentially large users in other industries, are they not a possible subject for a contract?

Mr. RHOADES. We have had no discussions with them in connection with molten metal contracts.

Mr. YATES. What do you think about the question of the scrap exports? I am sure you are familiar with the figures which indicate they have grown tremendously. Do you feel this is a harmful situation or a healthy one? Do you ship scrap out of this country?

Mr. RHOADES. No; we don't. I think that is a matter the significance of which might vary with the particular situation that exists in the aluminum industry at that particular time.

I don't believe that the upsurge in scrap shipments out of the United States that has occurred, say, in the last 6 months or even the last year, 1959, has had an adverse effect upon the scrap situation in the United States.

Mr. YATES. Well, I remember that in 1955, part of the reason ascribed for the shortage of primary metal at that time was the very great increase in scrap exports. There has been a tremendous increase in producing capacity since that time, of course, and the same situation may not pertain, but Mr. Burton of the Smelters Institute came in and thought that the rate of increase was quite alarming, and he suggested that if it continued, why, the smelting industry, and, of course, this is not your industry, the smelting industry might be very adversely affected.

Do you have a view on that?

Mr. RHOADES. I think it possibly could result in that effect, if there were a shortage of scrap in this country. It is my understanding that the scrap inventories at the end of 1959 were higher than they were in the previous year.

I think the export of scrap has to be considered in light of the situations that exist in the industry at the particular time.

The export of scrap per se I don't think is necessarily good or bad for the smelter industry.

Mr. YATES. What about the question of competition with independent fabricators, do you compete, do you—you make extrusions, don't you?

Mr. RHOADES. Yes, as I stated in my statement.

Mr. YATES. Yes.

Mr. RHOADES. We compete in about 4 percent of the market.

Mr. YATES. Do you make siding?

Mr. RHOADES. Pardon?

Mr. YATES. Does your company make siding or do you make the coils?

Mr. RHOADES. We do not make siding. We sell coils to other fabricators who fabricate and sell the siding to the ultimate consumer.

Mr. YATES. Alcoa has moved into that business apparently. I would say Alcoa has entered into contracts with five distributors for

the distribution of Alcoa siding. Do you feel that your company will have to do the same in order to meet this competition? Or is this a field which——

Mr. RHOADES. As of now, I could not make a positive statement to the effect that I believe that we will have to. We are trying to help the manufacturers of siding to whom we sell the raw material and what we are trying to do is to give them some national support in connection with advertising.

Some of these siding manufacturers have a very limited area that they can service, and their particular brand might not be known nationally, and what we have been trying to do is to attach our name to the product that they make, with the hope that that may be of some assistance to them in selling competitively with—against a national concern such as Alcoa, who are, as you say, selling their product through five or six large distributors.

Mr. YATES. I guess Alcoa is in the siding business. Where it used to sell coils it is now selling siding?

Mr. RHOADES. It is my understanding they manufacture siding and sell it to these six or five distributors.

Mr. YATES. Mr. Starr of the Aluminum Extruders Council testified about a price squeeze which prevails in respect to the use by the extruders of the 6063 alloy billet, and he thought that the extruders were being squeezed because the price of primary had gone up, the price of the billet and the extrusions, rather, which were made from that billet had not gone up correspondingly.

Do you have any views on that?

Mr. RHOADES. I think that when the price of aluminum was raised in December, that the price of 6063 billet was raised also, and I believe the price of extrusions was probably raised too insofar as publication in the price book.

Mr. YATES. Were they raised at the same rate that other semifabricated products were raised?

Mr. RHOADES. I could not say in this particular case specifically that they were, but actually the price raise that was in the book is not of too much significance because the price prevailing, the competitive price in the marketplace is the price you have to sell for if you want to sell any extrusions. We being such a small factor in that business, sell on a competitive basis, regardless of whether it is a price in the book or it is a price below that which has been published in the book. That, I should say, is primarily the result of the nonintegrated extruders' prices. I think that they are more of a factor in establishing the price in that market.

I know they are much more a factor than we are because we are such a small part of it.

Mr. YATES. Is there a price leadership situation in respect to extruded products as there is in respect to the sale of primary metal. We know that when in the sale of primary metal where one of the producers, either raises or lowers its price, within a few days the other primary producers will follow suit. Is this true also in respect to extruded products?

Mr. RHOADES. Well, I think that possibly there are many leaders in the extrusion industry insofar as price leaders are concerned, because it does not take very much to lower a price in an industry. I think

that, as I said before, whatever price is established, regardless of who establishes it, in order to sell your product you have to be competitive. You are selling like products, and I don't believe, at least in our experience, that customers have been willing to pay us more than they would pay some other producer who has a similar product available to them.

Mr. YATES. I never could quite understand the way the price moves in the aluminum industry with respect to the sale of primary metal. I can appreciate when one of the companies drops its price the others have to follow suit in order to be competitive but I don't know why they have to follow suit if one raises his price.

Mr. RHOADES. Well, we have had some experience in that connection where we have raised prices on certain items, and made up our mind that the new price was right. We stayed with the price for 60 days or 90 days, losing practically all of our customers for that item but eventually we had to lower our price to be competitive with the other producers in the business selling the same commodity.

Mr. MOORE. Has Kaiser attempted to do this in more than one instance?

Mr. RHOADES. Well, I can recall one instance in particular. There may have been other instances also.

Mr. YATES. What happens if a primary metal producer raises the price of a semifabricated product, will the others follow suit, as they do in primary metal?

Has that happened?

Mr. RHOADES. I think it has occurred, yes.

Any upward price change in the aluminum industry that affects a product we produce we certainly take a good look at it, and if, in our opinion, the increase is justified, we follow it. There may have been cases where we did not feel that it was proper, and consequently did not increase our price.

Mr. YATES. Did the other price come back?

Mr. RHOADES. It would have to if others wanted to share the business or that portion of the market.

Mr. YATES. Is this true in the sale of primary metal as well?

Mr. RHOADES. No. I don't know of a case where the price has been increased by any primary producer, and the other producers did not follow and, as a result, the initiator of the price increase had to reduce his price. There may have been one case some years ago on the part of Reynolds, I am not sure about that, where a price was raised on primary, or I guess—or it may have been on fabricated products, and the industry did not follow, and subsequently the price was reduced.

Mr. YATES. The logic of your argument with respect to the semifabricated price levels would follow with respect to primary. If one of the primary producers increased his price and the others failed to go along, it would not be long before the one who raised his price would have to come back to your level, would he not?

Mr. RHOADES. If he wanted to sell in that market, I should think that he would have to.

Mr. YATES. Do you—what is the nature of the credit you give your customers, does it vary from class to class?

Mr. RHOADES. We have standard terms and conditions under which we sell our products. I think it was indicated in these hearings by

others that all other terms and conditions to all of their customers are exactly the same.

Well, I don't know whether that prevails to that extent in our particular case, if that is the case with the other primary producers, I think it is a true statement with respect to our situation.

What I am saying is we may have 8,000 customers, now to say that every one of those customers has exactly the same situation with respect to terms and conditions, I don't think I could honestly say that, and I don't want to intimate here that we sell different people on different terms and conditions either.

That is not the case at all.

Mr. YATES. You do have standard procedures though.

Mr. RHOADES. That is right.

Mr. YATES. And I am sure the standard procedures may vary from customer to customer depending upon the customers' own financial requirements and conditions, isn't that true? Is that true or not?

Mr. RHOADES. No, that would not be the basis of a variation, Mr. Yates. I think that any deviation from a standard term and condition for a particular customer in a particular industry might be the result of competition having different terms and conditions with respect to that particular business. Terms and conditions to a large extent are part of price, and where you run into a situation where a competitor has more favorable terms and conditions with respect to a given customer, and you want to participate in his business it may be necessary for you to meet those terms and conditions.

Mr. YATES. Can you give us an example of that?

Mr. RHOADES. No, I can't offhand. I am just speaking in generalities here.

Mr. YATES. Well, I know that you are, and that is why I asked for examples. The reason I asked the question is because it has been testified before our committee that at least one of the primary producers gives certain credit terms which are more favorable to some customers than others, and in some instances a primary producer has given warehousing services to his customers.

In other words, discriminatory preferences have been given. But you don't know of any in connection with your company?

Mr. RHOADES. No, not that are creating discrimination between customers in the same industry; no, sir.

Mr. YATES. Do you have the same type of commodity pricing that the other primary producers have?

For example, it was testified that 6063 billet was sold at a lower price to, I guess it is aluminum trucking companies than it was to extruders.

Mr. RHOADES. There are commodity prices in the aluminum industry, and where commodity prices exist, in order to be competitive and be a candidate for the business, well, we quote commodity prices.

Mr. YATES. What would the reason be for your selling 6063 billet, which is the same billet, for both classes of customers at a lower price to the trucking industry, for example, than to the extruding industry?

Mr. RHOADES. I don't know that we do, but someone else in the industry could be doing that for the purpose in that particular industry, of competing with, say, steel. There are commodity prices for canned stock, for instance, that price, however, is available to any canmaker in the United States.

We don't discriminate between the members of a particular industry. When we think there is a large potential for aluminum there, and in order to be competitive with tinplate, which is the competition that is in that particular field, commodity prices are available to any canmaker in the canmaking industry.

Mr. YATES. If you did offer the same price to the extrusion industry as you do to this commodity class, wouldn't you take the business away from the other primary producers?

Mr. RHOADES. I didn't quite get that.

Mr. YATES. For example if you sell 6063 billet at one price to the aluminum truck industry, and at a higher price to the extruders—if you lower your price to the extruders to the same level as the aluminum trucking industry, wouldn't you pull in more business from the extruders?

Mr. RHOADES. I am not familiar with a price differential existing on 6063 billet to the trucking industry. I thought it was a commodity price to the trucking industry for 6063 extrusions?

Mr. YATES. Extrusions; I will take your version of it, yet. All right, let's take that example.

Mr. RHOADES. Well that, as I said, is there for the purpose of developing business for aluminum against some competitive metal.

Mr. YATES. It is the semifab where the price differential exists rather than in the primary metal, the billet?

Mr. RHOADES. Yes, that is my understanding.

Mr. YATES. That is to break into the industry.

Mr. RHOADES. Pardon?

Mr. YATES. That is to break into the industry.

Mr. RHOADES. Into the trucking industry.

Mr. YATES. What about the question of mergers? I don't remember whether Kaiser has purchased the stock or purchased the assets of any companies lately.

Have you done so?

Mr. RHOADES. We wrote you on that, Chairman Yates, and set forth——

Mr. YATES. Oh, yes, I have it here stating that you had purchased Foil Kraft.

Mr. RHOADES. I think there were three.

Mr. YATES. That's right, certain inventories. What is your feeling about the question of mergers and acquisitions? Do you think that it is a healthy or an unhealthy situation in the aluminum industry?

Mr. RHOADES. Well, I don't think I could answer that in a general way.

I think in some cases it may be a plus, and in other cases it might be to the detriment of certain members of the industry, if that occurred.

Our acquisitions—I think there was one relating to refractories, and then one relating to the acquisition of a wire facility, U.S. Rubber Co., in addition to the one that you mentioned.

The acquisition of the U.S. Rubber Co.'s wire facilities, Bristol, I think was good for the aluminum industry, and good for Kaiser, because what we had been attempting to do was to increase the use of aluminum in insulated wire. There is a high percentage of use

of aluminum as compared to copper in bare wire, A.C.S.R. and even in covered products; but there is a large potential in insulated wire. I think the present percentage is only about 3 percent aluminum. We thought, by acquiring this facility and the company, personnel, et cetera, that we would be picking up a number of experienced people in this field. We also felt that by having facilities that could make either aluminum or copper we were in a better position to sell the customer on the utilization of aluminum. That was not the case before.

The copper people have been in the aluminum business. They have used aluminum incidental to copper. We wanted to be in the same position to say "Well, if you want to use copper—although we think you should use aluminum we will make it for you. We think you are foolish if you don't use aluminum."

Mr. YATES. With respect to this letter from Mr. McCarthy, who is your vice president and counsel, and which contains a statement of the acquisitions by your company, is there an objection, any objection to putting the full terms of the acquisitions in the record? When similar information presented by Reynolds was given to us, there was some objection to putting the terms, the consideration for the purchase in the record.

Do you have some objection to it?

Mr. RHOADES. I think if they objected to it——

Mr. YATES. You will meet the competition. [Laughter.]

All right, then that portion of this letter may go in which relates to all data surrounding the acquisition, except the figures which made up the consideration for the acquisition.

(The document referred to follows:)

KAISER ALUMINUM & CHEMICAL CORP.,
Oakland, Calif., April 29, 1960.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3,
Select Committee on Small Business,
House of Representatives, Washington, D.C.

DEAR CONGRESSMAN YATES: Your letter dated April 26, 1960, addressed to Mr. Edgar F. Kaiser, requests certain information regarding acquisitions and mergers by this company in the aluminum field since January 1955. The information requested is as follows:

1. The food container plant and inventories of Foil Kraft, Inc., located at Los Angeles, Calif., were acquired on January 31, 1956. * * * The plant had an annual rated capacity of 6,000 tons of aluminum food containers.

2. The wire and cable plant and inventories of the U.S. Rubber Co., located at Bristol, R.I., were acquired on February 1, 1957 * * *.

While the Bristol plant was primarily engaged in the manufacture of copper wire and cable products, we have included this acquisition in our reply since the principal motive in the purchase of the Bristol plant was to convert the copper operations to aluminum.

3. On October 29, 1956, we purchased the inventories of the International Rolling Mill Products Corp.'s extrusion plant at Dolton, Ill., and leased the plant. The capacity of this plant was 12,000 tons of extrusions per year * * *.

Very truly yours,

THOMAS K. MCCARTHY.

Mr. YATES. Mr. Multer?

Mr. MULTER. No questions, thank you, Mr. Chairman.

Mr. YATES. Mr. Moore?

Mr. MOORE. Mr. Rhoades, in further response to questions on your credit terms, is it fair to say that you have what is referred to as

standard credit terms and those credit terms are usually stated on the invoices of the company?

Mr. RHOADES. Yes, sir.

Mr. MOORE. And I would assume this is a matter which a company such as yourself would indulge in very carefully so that you would preserve the best customer relationship, I mean the same terms for everybody I would assume would be a guideline; is that correct?

Mr. RHOADES. That is correct, sir.

Mr. MOORE. Something you would adhere to as strict policy of the company?

Mr. RHOADES. Yes, sir.

Mr. MOORE. Otherwise it would do violence not only to probably the law but to your customer relationship?

Mr. RHOADES. That is correct.

Mr. MOORE. I have no further questions.

Mr. YATES. Mr. Derwinski?

Mr. DERWINSKI. No questions, Mr. Chairman.

Mr. YATES. Mr. Dalmas?

Mr. DALMAS. Mr. Chairman, I have one question if I may ask it. Mr. Rhoades, the subcommittee has before it, as the chairman has indicated, a number of charges and allegations concerning prices which, for the most part have to do with the integrated primary producer, and since the subcommittee does not have a proper yardstick to measure these charges, it needs information on pricing practices and methods.

The substance of this question, Mr. Rhoades has been asked of the two previous witnesses representing primary producers. The question has to do with pricing methods utilized by the primary producer.

Recently I have examined price and data books of the aluminum industry, and in those books are hundreds and perhaps thousands of semifinished and finished products in many categories covering many sizes, kinds, and qualities.

In the steel industry with which I am sure you are familiar, we have long had base prices in each category with published extras, for variations from the base, for size, kind and quality.

The question is, do you price your aluminum products, as shown in your book, by a similar method or do you use some other method to arrive at the end price?

Mr. RHOADES. We have published prices with respect to certain commodities, and we also have published extras for those same commodities.

Mr. DALMAS. Do you have a base price in each category?

Mr. RHOADES. That is right. If there is a tolerance or a brightness or an interleaving connected with the sale of that particular commodity, if there are extras and also quantity extras they are all set forth and in addition to the base price that is published in the price book.

Mr. DALMAS. So that a customer of yours having a base price and one of your extra books can sit down and almost figure out what the price is himself.

Mr. RHOADES. That is correct. There is not an extra book. The extras are included in the same book.

Mr. DALMAS. In the price book?

Mr. RHOADES. Generally. At the bottom of the page in the regular published price book as related to the items above.

Mr. DALMAS. Now any variation in price from the prices stated in the book, to take an example, we will say an eighth-inch sheet 36 by 96, something like that, it has a price per pound set forth in the book.

Now, when we talk about prices generally in commodity areas, and I am using the term "commodity" in the sense of size, kind and quality, as shown in your book, when you go out to sell, for example, the sheet might be a popular sheet in some industries, and you find the competition pretty keen in that particular industry for this particular item of sheet.

Now, if you meet the competition on that particular item, does that mean that the rest of the items in that paricular category remain at the same price or do you reduce the whole group?

Mr. RHOADES. First of all, the salesman goes in to a customer with a price book, and quotes the customer the price that is applicable in our price book for the particular commodity that the customer wants to purchase. And we sell him on that basis.

Now, as I previously stated, if there is a price to that customer from some other source that is advantageous to that customer we consider meeting that price. We have to be satisfied in our own mind that it does exist, and then we make a decision as to whether or not we want to meet that particular price.

Mr. DALMAS. In other words, you meet prices item by item.

Mr. RHOADES. Item by item, if we want to, yes.

Mr. DALMAS. If you want the business?

Mr. RHOADES. That's right.

Mr. DALMAS. Thank you. That is all, Mr. Chairman.

Mr. MULTER (presiding). Mr. Moore?

Mr. MOORE. Mr. Rhoades, I was interested on page 2 of your statement where you indicate there are today approximately 340,000 tons of idle capacity in the United States. What percentage of that idle capacity is represented by Kaiser?

Mr. RHOADES. I think around 15 percent, I should say.

Mr. MOORE. Of that figure?

Mr. RHOADES. No. I should say that we are operating our facilities at about 85 or 86 percent of capacity.

Mr. MOORE. Capacity?

Mr. RHOADES. Yes, sir.

Mr. MOORE. Now you have also indicated that there will be approximately an additional 240,000 tons of primary capacity; in the future what portion of that would be Kaiser's or do you have any part of the increased capacity?

Mr. RHOADES. We do not. We have completed our major expansion program. I think there is some incompleted or uncompleted capacity of Alcoa, and also of Reynolds. I think Alcoa has, according to the

American Metal Market as of this morning, Alcoa shows under construction 207,000 tons, and Reynolds Metals Co. shows 33,300 tons under construction. So that adds up to the 240,000 figure that I have referred to.

Mr. MOORE. That you made reference to?

Mr. RHOADES. That I referred to in my statement.

Mr. MOORE. In other words, the additional tonnage that is referred to, the increase in primary capacity is concentrated in Reynolds and Alcoa rather than perhaps any of the additional four new primary producers that you refer to in your statement?

Mr. RHOADES. Yes, sir.

Mr. MOORE. It is exclusively Reynolds and Alcoa.

Mr. RHOADES. That is correct.

Mr. MOORE. So far as you know?

Mr. RHOADES. According to this information I have this morning.

Mr. MOORE. Thank you, Mr. Rhoades.

Mr. MULTER. Thank you very much, Mr. Rhoades.

At this time, we will make a part of our record a letter from the Export-Import Bank of Washington dated April 29, 1960, addressed to Chairman Yates, a letter from the International Cooperation Administration dated April 29, 1960, addressed to Chairman Yates, and a letter of May 3, 1960, from the Development Loan Fund addressed to Chairman Yates.

(The documents referred to follow:)

EXPORT-IMPORT BANK OF WASHINGTON,
Washington, D.C., April 29, 1960.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, Select Committee on Small Business, House of Representatives, Washington, D.C.

DEAR MR. YATES: Reference is made to your letter of April 22, 1960, requesting a list of loans made or prospective loans under consideration by the Export-Import Bank of Washington pertaining to aluminum in any form, that is, production of aluminum, alumina, or the mining of bauxite.

The records of the Bank reflect that loans indicated in the attached table have been made in connection with the aluminum industry.

Very sincerely,

SAMUEL C. WAUGH, *President.*

EXPORT-IMPORT BANK OF WASHINGTON

Loans pertaining to aluminum industry, 1934 to March 1960

Country and obligor (guarantors in parentheses)	Credit No.	U.S. products and services financed (exporters in parentheses)	Credits authorized		Disbursed	Repaid
			Date	Amount		
Austria: Brueder Teich (Oesterreichisches Credit-Institut, A.G.).	778	Equipment for aluminum foil plant	Mar. 15, 1956	$1,000,000	$913,336.70	$142,857.16
Canada:						
Aluminum Company of Canada, Ltd	298	Expansion of aluminum plant facilities	July 1, 1941	25,000,000	25,000,000.00	25,000,000.00
Do	320	do	Mar. 6, 1942	25,000,000	8,200,000.00	8,200,000.00
Do	325	do	Apr. 10, 1942	9,250,000	4,200,000.00	4,200,000.00
Do	1,122	Aluminum reduction plant	Jan. 7, 1960	13,650,000		
India: Hindustan Aluminum Corp., Ltd	889	Aluminum extrusion equipment (Lombard Corp.).	Feb. 8, 1957	91,000	83,116.69	75,560.60
Peru: Manufactura de Metales y Aluminio "Record," S.A., et al (F. G. Moll).	777–1–6	Punch presses and dies	Feb. 4, 1959	100,000	98,249.77	
Philippines: Aluminum Products, Inc.						

DEVELOPMENT LOAN FUND,
Washington, D.C., May 3, 1960.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, Select Committee on Small Business of the House of Representatives, Washington, D.C.

DEAR MR. YATES: In Mr. Brand's temporary absence from Washington, I am pleased to reply to your inquiry of April 22 with respect to loans by the Development Loan Fund for the purpose of aluminum industries.

The DLF has made one loan for aluminum purposes. That is the loan to the Taiwan Aluminum Corp. for $1,350,000 repayable in 5 years at 5½ percent in new Taiwan dollars, signed on June 25, 1959.

This loan will assist in financing the costs of acquiring equipment, materials, supplies, and services required for modernization and expansion of the corporation's facilities for producing alumina and aluminum ingot at Kaohsiung, Taiwan.

The purpose of the loan is to increase efficiency of operations, increase the yield of aluminum ingot, and reduce costs, through the installation of new filters and other equipment in the alumina production units, a red mud processing unit to recover caustic soda and aluminum oxide from red mud waste, four sets of silicon rectifiers, new oil circuit breakers, and other items.

No American companies are participating in this aluminum project.

No other DLF loan has been made for the production of aluminum, alumina, or the mining of bauxite.

There is currently one small application for aluminum manufacturing purposes under consideration. It is described in a classified attachment to this letter, inasmuch as information on proposals pending before the DLF are held in confidence unless released to the public by the applicant.

In addition to this proposal, there have been inquiries from several sources with respect to loans from the DLF for aluminum manufacturing, however no applications for financing have been received.

Sincerely yours,

HART PERRY, *Acting Managing Director.*

The DLF has under consideration an application for a loan of $500,000 to be used to assist in the expansion of an existing aluminum manufacturing plant in Beirut, Lebanon. The applicant is the Societe Pour d'Industrie Des Metaux (SIDEM), Beirut, Lebanon. The DLF staff is examining the financial, technical, and economic feasibility of the proposal.

INTERNATIONAL COOPERATION ADMINISTRATION,
OFFICE OF THE DIRECTOR,
Washington, D.C., April 29, 1960.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, Select Committee on Small Business,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: I am pleased to give you such information as is readily available with regard to ICA and predecessor agencies' assistance as well as prospective assistance through loans and guarantees pertaining to the production of aluminum in any form.

The first program under which loan assistance was given, during fiscal years 1949–51, was for the purpose of increasing production of strategic materials needed actually or potentially by the United States. Under this program, loans were made in Germany, Netherlands, Norway, and Jamaica to the extent of $49 million in dollars and U.S.-owned counterpart for aluminum production and bauxite mining. (See attached table.)

The second program under which loan assistance was given, during fiscal years 1953 and 1954, was meant to reduce the drain on U.S. resources and assure adequate supplies of essential raw materials to the free world. Under this program, one loan for aluminum production was made in Germany amounting to over $2 million from U.S.-owned counterpart. (See attached table.)

In the short time available before May 2 it has not been possible to search for the original documentation as to the companies to which loans were made. We will supply these for the record as soon as possible.

In addition to loans and applications for loans in the aluminum industry, mention should be made of investment guarantees and applications for guarantees in this same field under the ICA investment guarantee authority. Two guarantee contracts have been issued against the risk of expropriation for Olin Mathieson, and a subsidiary, for investment in a bauxite mining and aluminum production project in Guinea in September 1958. This entire project represents an investment of $135 million and the guarantee extended to the U.S. investment amounted to $72 million. French, German, and Swiss interests participated.

Recently there have been some very tentative inquiries which may turn out to be serious applications for guarantees on projects in the Boke region of Guinea, the Volta region in Ghana, and the Inga project in the Belgian Congo. As a general rule, these projects will run in the neighborhood of $150 million each. The Fria (Olin Mathieson) and Boke projects are primarily for the production of the mineral and the Volta and Inga projects are for power to reduce the mineral to aluminum. It is impossible to determine at this point how quickly these African projects may develop. All of them have been in some stage of development now for several years. It is unlikely, in our estimate that guarantees will actually be issued for another year or two. However, events may move faster than this.

In addition, American companies have presented applications for aluminum reduction or fabrication in Argentina to the extent of $33 million and in India for $6 million.

It is not our custom to divulge the names of the applicants for guarantees nor the specific amounts of investment to be made by each American investor in order not to give information of a private and confidential nature. However, in general, it can be said that the applicants constitute the well-known American names in the aluminum field.

Sincerely yours,

L. J. SACCIO, *Acting Director.*

	Total	Dollars	U.S.-owned counterpart	Currency
Part I, 1949–52:				
Germany: Aluminum-bauxite, loan	7,381	----------	7,381	Deutsche marks.
Netherlands: Bauxite, loan	566	----------	566	Guilders.
Norway: Aluminum, loan	20,864	200	20,664	Norwegian kroner, Danish kroner, Deutsche marks, schillings.
Jamaica: Bauxite, loan	20,930	10,382	10,548	Pound sterling.
Total	49,741	10,582	39,159	
Part II, 1953–54:				
Germany: Aluminum, loan	2,381	----------	2,381	Deutsche marks.

INTERNATIONAL COOPERATION ADMINISTRATION,
Washington, D.C., June 6, 1960.

Hon. SIDNEY R. YATES,
Chairman, Subcommittee No. 3, Select Committee on Small Business,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Mr. Saccio promised you in his letter of April 29 such further information as was available with respect to the U.S. companies participating in ICA loans for aluminum and alumina production and for bauxite mining. Although our information is incomplete, it does show that the Jamaica loan was made to the Jamaica Bauxite Corp. and Reynolds Jamaica Mines, Ltd., both apparently subsidiaries or affiliates of Reynolds Metals Co., a U.S. corporation. No other U.S. company has been identified as participating in the loans previously reported to you.

Sincerely yours,

GUILFORD JAMESON,
Deputy Director for Congressional Relations.

Aluminum die castings—Automotive and all other uses compared, 1950–59, by source of supply

[Thousands of pounds]

Year	Total aluminum die-castings	Automotive use			All other uses		
		Total	Supplied by—		Total	Supplied by—	
			Custom shops	Captive plants		Custom shops	Captive plants
1950	144,000	33,550	29,350	4,200	110,450	98,150	12,300
1951	128,000	27,250	21,000	6,250	100,750	85,000	15,750
1952	155,500	40,250	28,950	11,300	115,250	98,550	16,700
1953	236,000	70,900	47,900	23,000	165,100	137,100	28,000
1954	223,000	82,000	57,000	25,000	141,000	111,000	30,000
1955	352,500	165,000	117,000	48,000	187,500	153,000	34,500
1956	367,250	156,000	93,000	63,000	211,250	169,250	42,000
1957	376,500	185,000	115,000	70,000	191,500	153,750	37,750
1958	290,250	122,900	58,500	64,400	167,350	135,000	32,350
1959	374,650	170,000	66,000	104,000	204,650	168,150	36,500

Comparison of Custom and Captive Share of Business

Custom percent of automotive:	
1st year, 1950	87.0
1st 5 years, 1950–54	72.5
2d 5 years, 1955–59	52.5
10th year, 1959	39.0
Custom percent of nonautomotive	
1st year, 1950	89.0
1st 5 years, 1950–54	83.7
2d 5 years, 1955–59	81.0
10th year, 1959	82.0

Mr. MULTER. And with that we will recess these hearings—I am sorry.

Mr. MOORE. May I make one observation?

During these hearings by reason of other committee hearings, I have as an individual member of the committee not been able to attend regularly but I did not want these hearings to close without making the observation that I certainly regretted to learn a few days ago about the illness of the very energetic counsel of this committee, Mr. Maness, and I have attempted to follow rather closely his recovery and his well-being.

I understand at this time he is improving and I certainly want to wish him, Mr. Maness, a speedy recovery and a return to the committee.

We members really realize what a loss it is when we lose a man like Irving who has been our counsel for a long period of time.

Mr. MULTER. I am sure Mr. Maness will appreciate the remarks made today, and the committee will send to Mr. Maness for his, we hope, edification the remarks that were made on the record yesterday as well as those of yourself today.

Mr. Rhoades, we appreciate your coming here, and you have been very helpful to the committee.

Mr. RHOADES. Thank you, Congressman Multer.

Mr. MULTER. The committee will now stand in recess subject to the call of the Chair.

(Whereupon, at 12:20 p.m. the hearing was recessed, subject to the call of the Chair.)

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